Evaluation Report of Compliance to Provisions of the Sikkim FRBM Act Fiscal Year 2018-19

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Contents

1.Introduction: Objectives and Approach

This evaluation report is prepared and submitted by National Institute of Public Finance and Policy (NIPFP), New Delhi, to the Government of Sikkim as part of an independent review process of state finances and compliance to the state Fiscal Responsibility and Budget Management Act (FRBM Act). The State Government entrusted the responsibility of reviewing the compliance of the Act for the fiscal year 2018-19 to NIPFP. The evaluation report summarizes the key conclusions and lessons of fiscal management for the fiscal year. In addition to highlighting state's compliance to fiscal responsibility act targets, the report contains broad trend of fiscal management. Budgetary projections relating to revenue and expenditure were analyzed keeping the outturns in consideration to assess the ability of the government to implement the budgetary plans. The report incorporates the revenue efforts of the state government and resource transfers from union government to assess the revenue plan and outturns and assess the spending plans of the departments under social, economic and general services. It draws upon earlier review reports and available literature on state finances of Sikkim.

The report is based on literature review, background analytical work to define an approach to the evaluation, and a quantitative analysis of fiscal data. The report incorporated the comments received from the state finance department. The report is placed in the state legislature as per the requirements of the FRBM Act for the legislative approval. The independent review report of on compliance of provisions of fiscal responsibility legislation, thus, becomes part of established accountability structure of the state government and is expected to improve transparency in the fiscal management. The report will help in the process of wider dissemination of information and consultation process.

Provision for an independent review provides an institutional process to assess the fiscal management process of the state government keeping the statutory fiscal targets and fiscal management principles enshrined in the FRBM Act in consideration. While Covid-19 pandemic affected revenue generation, increased expenditure and changed the spending pattern, partially in 2019 and to large extent in 2020-21, fiscal management in 2018-19 will reflect on the capacity of the Government to come back to the consolidation process.

Presenting fiscal policy to independent scrutiny is a means of practicing transparency in governance, which enhances trust on government policies[1]. Fiscal transparency requires that governments declare their fiscal policy objectives, programs to implement the policies, announce outcomes and explain the deviations from plans so that they can take corrective measures. The entire process, from policy formulation to achievement of results, need to come under established legislative control, and the information need to become available to the public. The independent scrutiny becomes instrumental in this process, by helping legislatures and the public in accessing the quality of fiscal policies, plans and performance.

The FC-XIII recognized that an independent review mechanism could be a potential instrument to bring in efficiency to public spending and improve credibility. The FC-XIII recommended to institutionalize this at the level of both Union and state governments. According to the Commission, the independent review mechanism should evolve into a fiscal council with legislative backing over time[2]. FC-XIV and other expert bodies also favored creating fiscal council at the Union level[3]. The Union Government, however, has entrusted the responsibility of independent evaluation of FRBM Act to the Comptroller and Auditor General of India (CAG). Establishing fiscal council for all the states could be a complex effort, for which periodical independent review looks more feasible to enhance accountability and transparency.

Sikkim enacted FRBM Act in 2010-11 with the objective of designing and implementing a rule based fiscal management system to ensure fiscal stability and sustainability while ensuring efficient provision of public services. Introduction of FRBM Act facilitated formulation of Medium Term Fiscal Plan (MTFP) with the expectation of providing a medium term perspective of macro-fiscal situation and improve transparency. The state FRBM Act lays down quantitative targets with regard to deficit measures and debt level. Over the years there have been several changes in these targets following recommendations

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[1] IMF Code of Good Practices on Fiscal Transparency.

[2] Report of the Thirteenth Finance commission, paras 9.65 and 9.66, pp.137

[3] The 13th and 14th Finance Commissions advocated for establishing independent fiscal agencies to review the government's adherence to fiscal rules, and to provide independent assessments of budget proposals. The N.K. Singh committee, (2017) on the review of fiscal rules suggested the creation of an independent fiscal council that would provide forecasts and advise the government on whether conditions exist for deviation from the mandated fiscal rules. In 2018, the D.K. Srivastava committee on Fiscal Statistics suggested the establishment of a fiscal council that could co-ordinate with all levels of government to provide harmonized fiscal statistics and provide an annual assessment of overall public sector borrowing requirements.

of successive Central Finance Commissions relating to fiscal adjustment path in the country. The government usually includes these changes in the Act through amendments. The fiscal management principles enshrined in the Act call upon the state government to design and implement prudent fiscal policies to ensure transparency in fiscal management, improve predictability in funding arrangements, provide a medium term perspective of revenue effort and expenditure management, and improve efficiency in management of assets and liabilities.

The Sikkim FRBM Act provides for independent review of the fiscal policy of the government and the compliance to the provisions of this Act in accordance with the recommendations of the FC-XIII. This provision has established an institutional process where the achievement of the fiscal targets and fiscal management principles has been examined to strengthen accountability system. The major objective of the review is to improve the credibility of the fiscal policy and transparency of the fiscal management process of the Government. The fiscal rules in the form of FRBM Act has become cornerstone of public financial management and a review of Government's compliance to its provisions assumes significance in our democratic governance system.

1.1 Objectives of the Review Report

The evaluation aims to address following issues pertaining to state finances in general and fiscal responsibility legislation in particular;

a) Compliance of the State Government to the provisions of FRBM Act in the fiscal year 2018-19. These include fiscal targets relating to deficit, debt, and other fiscal variables as specified in the Act.
b) Assessment of macroeconomic outlook that includes broad composition of gross state domestic product, contribution of various sectors to the state income, and growth perspective. The FRBM Act calls upon the state to prepare a macroeconomic outlook along with its medium - term fiscal plan (MTFP).
c) Assessment of state finances in terms of revenue effort, central transfers, spending pattern, and debt management. Assessment of fiscal management in these years provides a context and background to comprehend the response of the state government to the requirements of fiscal responsibility act given the availability of resources and commitments.

d) Evaluation of credibility of state budget in terms of its budget projections and outturns, both on revenue and spending side.
e) While assessing the compliance of the state to the provision of the FRBM Act, the report reviews the state's adherence to fiscal management principles and transparency requirements enunciated in the Act.

Limiting the fiscal deficit to targeted level to ensure sustainable level of debt has remained at core of the Act. 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 formulating a realistic budget to minimize deviations during the course of the year are the major features of the fiscal management principles. The budget management in terms of budget projection has to be unbiased to avoid discrepancies in flow of funds to programs.

The budgetary data published by the state government, CAG reports, and other socio-economic data formed the basis of this evaluation report. The fiscal data culled out from state budgets of the relevant years and data from finance account and appropriation account are major source of information for this study. The department of finance provided data and information on state finances for this study and gave an overall perspective on the state fiscal management including revenue receipts trends, debt management, resource allocations to different sectors, and achievement of FRBM fiscal targets. The study also benefited from the inputs provided by the spending departments.

The rest of the report is organized as follows. Section 2 provides an overall assessment of macroeconomic outlook and sector 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 FRBM Act are included in section 4. Issues related to revenue mobilization and expenditure pattern for the year 2018-19 as compared to the budget provisions are analyzed in this section. Concluding observations are contained in Section 5.

2. Macroeconomic Outlook

Given the slowdown in the national economy due to Covid-19 pandemic, assessing macroeconomic outlook of Sikkim during 2018-19 assumes significance to show the strength of the state economy to augment the fiscal management process. With the growth of GDP picking up, the state economy will be stabilized and help in developing sound fiscal strategy and ensure predictability of flow of funds. A stable economic situation in the long run helps the state government building sound fiscal forecasting to support development process. Growth of the economy serves as an accepted base for revenue generation effort of the state government. Getting an unbiased picture of resource envelope is crucial factor in the budget management process while taking allocation decisions.

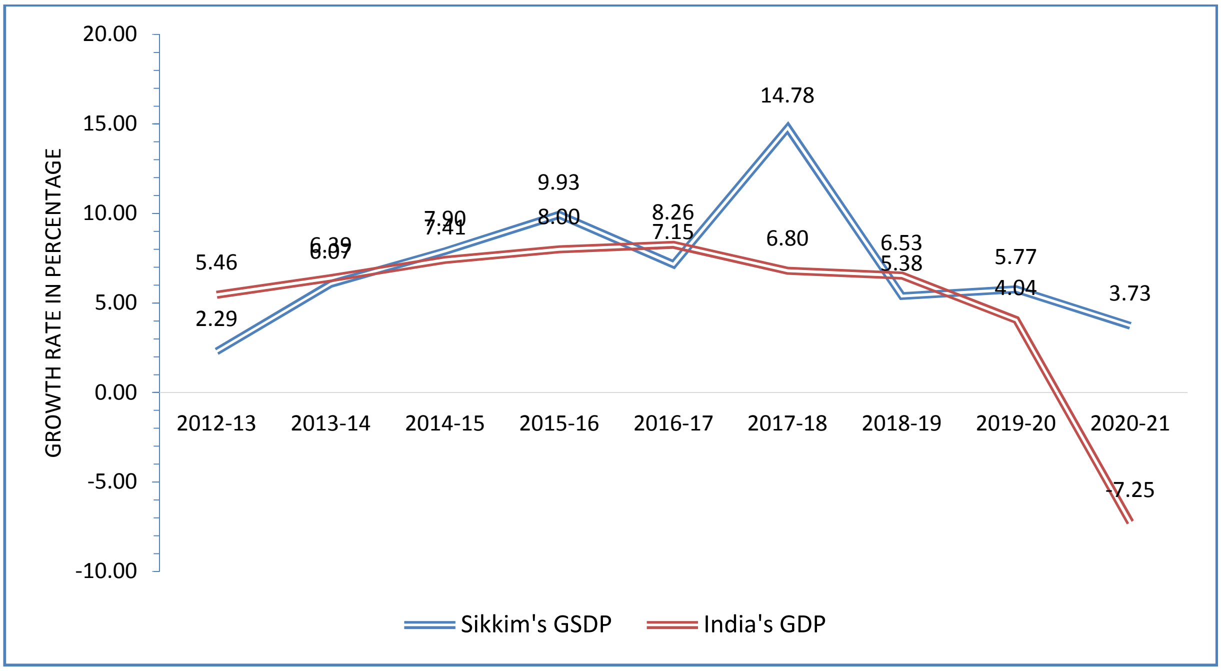
FRBM Act stipulates that the state government should provide a macro-economic framework statement along with the FRBM related documents, which should contain analysis of growth and sectoral composition of GSDP. The macroeconomic outlook of the state is analyzed here to get a perspective of contribution of various sectors to the state economy and possible revenue implication. This is crucial in the context of fiscal policy in general and budgeting in particular. It assumes significance for internal revenue effort and benchmarking fiscal variables over the years. Further, borrowing limit of the state government is determined by the central government as a proportion to state GSDP. This is based on assumptions regarding the growth rate usually made by the Central Finance Commission.

2.1 Gross State Domestic Product of Sikkim

The GSDP at constant prices in Sikkim continued to grow steadily from 2.29 percent in 2012-13 to 9.93 percent in 2016-17. After a sharp decline in 2016-17 (7.15 percent), the GSDP growth rate reached a peak of 14.78 percent in 2017-18 (Figure 2.1). Once again, the GSDP suffered a setback in 2018-19, as its growth declined to 5.38 percent and showed a declining trend for next two years and stood at 3.73 percent in 2020-21. A comparison of GSDP growth at constant prices with India's GDP growth during 2012-13 to 2019-20 shows that GSDP growth exceeded the GDP growth in several years.

Fig 2.1

Sikkim's Economic Growth: GDP-GSDP Growth rates (at constant prices)



Per capita income of the state is a compelling indicator of economic progress. Despite the problems of outliers influencing per capita income, it remains as an important measurement of the stability and wealth within an economy. Per capita income of Sikkim has improved from Rs. 2, 43, 392 in 2014-15 to Rs. 4, 30, 340 in 2018-19 at current prices. The per capita income of the state shows an annual average growth rate of 13.21 percent during 2012-13 to 2018-19. Based on average per capita income during the period from 2014-15 to 2018-190, Sikkim occupies second position among all states in India. It only remains behind Goa, another small state in Indian union.

The growth of the GSDP that has propelled Sikkim very high in the per capita income ladder across the states, remains an enigma, when it comes generating resources internally. The manufacturing and construction sectors remained major contributors to the growth of the state economy. The impressive growth of power sector was basically driven by generation of hydroelectricity in newly commissioned power projects. The manufacturing sector showed very high growth due to higher production in pharmaceutical industries and strengthening of small-scale industries.

Although, the manufacturing, power and construction sectors emerged as major driving forces for the Sikkimese economy, their impact on state finances, particularly on revenue generation has not been very productive. The generation of hydroelectricity, though adds to the GSDP numbers, remain outside the state tax system. Similarly, the pharmaceutical industries did not generate revenue earlier under VAT due to consignment transfer, and do not hold promise under GST regime either. The FC-XIV, based on the comparable GSDP figures, projected higher nominal amount of GSDP and nominal revenue receipts during its award period. The projected GSDP and revenue based on this became unrealistic for the state government to achieve.

Table 2.1
Per Capita Income (in Rs.) of all States (at current prices)

Sl. No.	States	2014-15	2015-16	2016-17	2017-18	2018-19	Average
1	Andhra Pradesh	88645	119777	134879	154020	169621	**133388**
2	Bihar	25379	33218	37052	40065	44451	**36033**
3	Chhattisgarh	68685	81907	94083	99452	110291	**90884**
4	Goa	268338	365806	415411	454172	467795	**394304**
5	Gujarat	128068	160284	179427	199492	225039	**178462**
6	Haryana	138975	183249	204727	231909	249932	**201758**
7	Jharkhand	53347	58139	65405	73628	79936	**66091**
8	Karnataka	117844	162796	186072	205499	227299	**179902**
9	Kerala	123573	164554	184979	203399	227979	**180897**
10	Madhya Pradesh	49827	69110	81768	90101	99543	**78070**
11	Maharashtra	131977	166351	184113	195195	212006	**177929**
12	Odisha	63238	76350	90855	101550	111892	**88777**
13	Punjab	107380	132467	143124	155781	171556	**142062**
14	Rajasthan	72270	93094	102422	109270	119956	**99402**
15	Tamil Nadu	120914	158072	174054	194834	215784	**172732**
16	Telangana	113238	155626	175530	198002	222320	**172943**
17	Uttar Pradesh	39548	53113	59249	64120	70680	**57342**
18	West Bengal	60722	83456	90426	100014	110728	**89069**
North-East States and Himalayan States							
1	Arunachal Pradesh	124978	127474	135665	151754	168905	**141755**
2	Assam	59894	68868	75869	83871	90616	**75824**
3	Himachal Pradesh	146488	159842	174249	191554	205277	**175482**
4	Manipur	58721	61906	66050	78284	82796	**69551**
5	Meghalaya	72563	76788	82127	86459	92274	**82042**
6	Mizoram	115366	127004	141614	164982	184477	**146688**
7	Nagaland	89541	94001	103490	114953	123729	**105143**
8	Sikkim	243392	281780	319740	397107	430340	**334472**
9	Tripura	77434	93248	101385	111151	125405	**101725**
10	Uttarakhand	152805	165588	180171	200706	213535	**182561**

Source: Central Statistical Office, GoI

The GSDP growth at constant prices, shows fluctuating trend over the years. During 2012-13 to 2018-19, it varied in the range 2.29 percent to 14.78 percent (Table 2.2). Average annual growth rate during this period works out to be 7.64 percent. The growth rate becomes a crucial factor in the context of budget making as GSDP is used as denominator in all target fiscal ratios, and it is also the determining factor for borrowing limit of the state. The growth rates assumed by Central Finance Commissions becomes reference points while making budget estimates. FC-XIV projected the GSDP growth at current prices for Sikkim for the award period 2015-16 to 2019-20 at 24.32 percent. However, the average annual growth rate of GSDP during this period was only 15.03 percent at current prices.

Table 2.2
Key Aggregates of State Domestic Product (Constant Prices)

	Growth over previous year (in %)						
	2012-13	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Gross State Value Added	1.74	5.15	8.08	9.09	6.16	11.94	8.26
Taxes on Products	21.44	23.31	1.33	20.65	21.37	56.22	-28.04
Less Subsidies on Products	15.55	-4.68	-4.70	-19.17	-20.19	-30.99	3.90
Gross State Domestic Product	2.29	6.07	7.90	9.93	7.15	14.78	5.38
Consumption of Fixed Capital	1.96	5.05	7.22	15.36	5.10	24.61	10.81
Net State Value Added	1.71	5.16	8.21	8.15	6.33	9.95	7.81
Net State Domestic Product	2.34	6.21	8.00	9.16	7.46	13.33	4.50
GSDP at Current Prices	10.51	12.35	11.14	17.05	14.71	25.54	9.36

Source: Central Statistical Office, GoI

2.2 Sector-wise Composition of GSDP

In Sikkim, industry sector is the largest contributor and is the driving force of the economy. Industry sector including manufacturing, construction, and electricity, has done well in the state. While the trend of relative share of manufacturing sector has increased over the years, the share of construction and electricity has shown some decline in recent years. The service sector including trade, hotel, transport, real estate, and financial services is an important component of the economy. After remaining stagnate for many years, the share shows declining trend in recent years. Agricultural sector has not fared well in the state as its relative share has declined over the years. The GSVA by economic activities since 2011-12 shows that relative share of manufacturing increased from 38.57 percent in 2011-12 to 44.08 percent in 2018-19. Secondary sector containing value added from manufacturing, constructions and electricity gas constitutes on an average 59.64 percent of the GSVA during 2011-12 to 2018-19 and indicates that it is the largest component of GSDP.

The services sector, which consists of financial service, hotel industry, transport services, services relating to real estate, and public administration, has been a growing sector in the national economy. Improving service sectors augurs well for revenue generation and particularly for states in increasing the GST collection. The contribution of services sector in Sikkim indicates that it is the second largest component of the GSDP. On an average during 2011-12 to 2018-19, service sector constituted about 28.19 percent. Relative share of services sector in the GSVA increased from 28.12 percent in 2011-12 to 30.53 percent in 2013-14. Since then, its share declined until 2017-18 and some revival has been noticed in 2018-19. The share of primary sector, which constitutes agriculture, forestry, and fishing activities and mining and quarrying has declined over the years

Table 2.3
Composition of GSDP (Constant Prices)

Economic Activity	**Percentage Share (%)**							
	2011-12	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Agriculture, Forestry and Fishing	8.07	8.17	7.99	7.59	7.17	7.29	7.38	7.81
Mining and Quarrying	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Primary	**8.14**	**8.25**	**8.07**	**7.68**	**7.26**	**7.37**	**7.46**	**7.87**
Manufacturing	38.57	37.81	38.53	40.05	41.62	43.85	44.30	44.08
Electricity, Gas, Water Supply & Others	16.71	15.01	13.56	13.84	12.90	12.08	12.00	12.97
Construction	6.01	5.53	5.50	5.08	5.05	4.24	3.94	3.87
Secondary	**61.29**	**58.34**	**57.59**	**58.97**	**59.57**	**60.16**	**60.24**	**60.92**
Trade, Repair, Hotels and Restaurants	2.82	4.46	5.03	4.60	4.31	4.31	4.31	4.72
Transport, Storage, Communication	2.54	2.96	3.10	3.07	3.00	3.16	2.82	2.78
Financial Services	1.48	1.52	1.51	1.50	2.59	1.57	1.36	1.38
Real estate	5.23	5.22	5.11	4.80	4.38	4.22	3.78	3.72
Public Administration	6.63	6.99	6.92	6.83	6.27	5.87	5.20	6.43
Other Services	9.42	9.29	8.87	8.92	8.23	8.06	7.21	7.09
Tertiary	**28.12**	**30.44**	**30.53**	**29.71**	**28.78**	**27.19**	**24.68**	**26.12**
TOTAL GSVA at Basic Prices	**97.55**	**97.03**	**96.19**	**96.36**	**95.61**	**94.73**	**92.38**	**94.90**

Source: Central Statistical Office, GoI

3. Review of State Finances of Sikkim

State finances in India depends considerably on transfers from Union Government. Features like institutional framework relating to division of financial sources and functions, own revenue effort of states, and changing dynamics of transfer system influence the fund flows. Sikkim depends heavily on Central transfers. Central transfers constitute about three fourth of total revenue of the state. As the distortions created by Covid-19 pandemic in both flow of central transfers and own revenues, it becomes imperative to look at the pre-Covid period to assess the strengths and weaknesses public financial management in the State. The evaluation report assesses the experience of the state in responding to changes in resource transfer system under the award of Fourteenth Finance Commission (FC-XIV) to remain on the fiscal consolidation path as fiscal stress was looming on the horizon[4].

After the recommendations of the FC-XIV, the fiscal transfer system in India went through significant changes in the fiscal year 2015-16. The changes in plan transfers by the central government also contributed to this. The composition of central transfers has changed noticeably. The FC-XIV recommended increasing the tax devolution to a high of 42 percent of all the central taxes and refrained from giving specific-purpose grants. Only grants awarded by the Commission were disaster relief grants and grants for local bodies. The Commission recommended for revenue deficit grant to some states after assessing their post-devolution revenue deficits.

Following the recommendation of the FC-XIV, the central government restructured plan grants to states in 2015-16 expecting reduction in net revenues available to it. Central Government subsumed Normal Central Assistance (NCA), Special Plan Assistance, and Special Central Assistance in the FC-XIV award and delinked eight schemes like National e-Governance Plan, the Backward Regions Grant Fund (BRGF), the Rashtriya Krishi Vikas Yojana (RKVY) etc. from central funding. Thus, the increment in tax devolution signifies a change in composition of central transfers, as the plan grants to the State budget have been removed leaving mostly the CSS funds. The Central Government also restructured the CSS based on the recommendations of the subgroup of chief ministers in 2016-17.

[4] RBI 2019, State Finances: A study of Budgets

The FRBM Acts of the states in India were amended to reflect the fiscal consolidation path recommended by FC-XIV, which includes deficit and debt targets and flexibility for higher borrowing for prudent fiscal management. While states continued to adhere to FRBM Act targets, the state finances were affected by moderation in national growth and its adverse impact on flow of central funds. Debt burden has increased continually since 2015-16, led by restructuring of power sector through schemes like UDAY. The RBI Study on State Finances (RBI 2019, State Finances: A study of budgets) has indicated that there has been a continual decline in state expenditure, mainly capital, which has wider repercussion on development process. The study of state finances of Sikkim shows the underlying factors that shaped the fiscal management process.

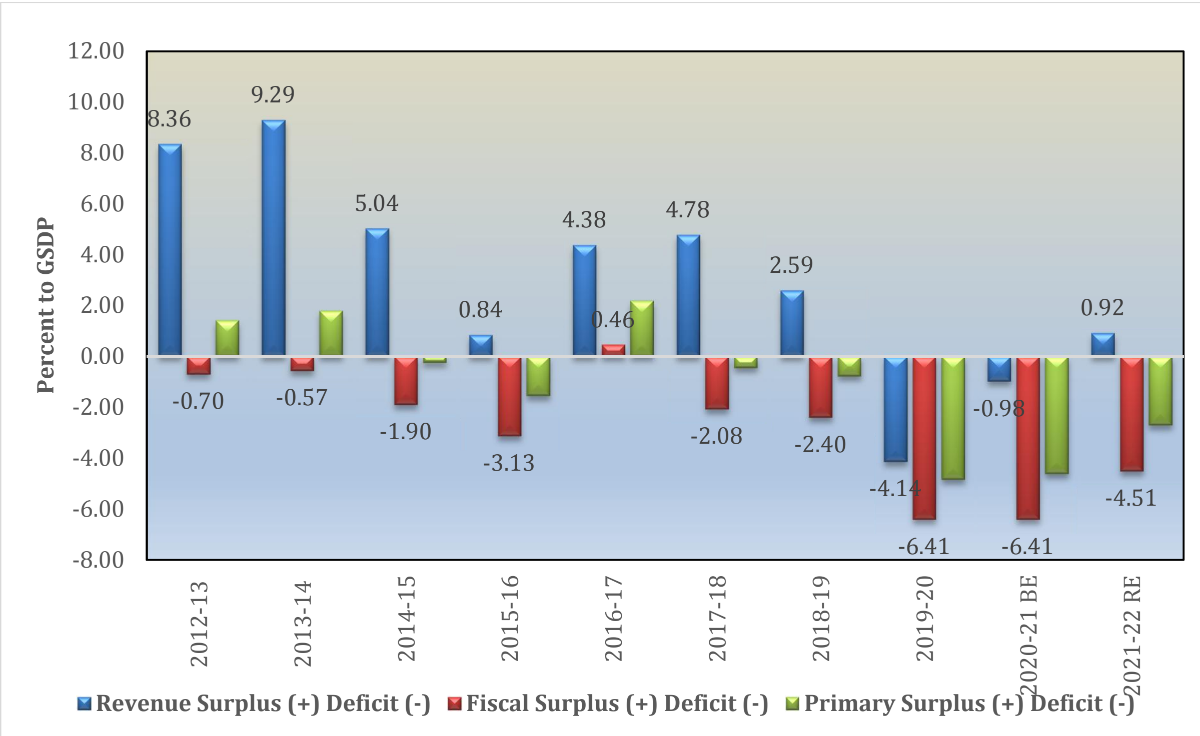
Sikkim continues to face challenges in fiscal management due to changes in central transfer system. The receipt of higher tax devolution, could not compensate loss of plan grants, which created difficulties for ongoing projects. Overall impact of changes in transfer system was not favorable to the state. The increment in tax devolution was aimed at providing larger untied fund to the states and thus flexibility to take policy choices. In the case of Sikkim, the central grants funded large number of projects. While the policy choices to fund the existing plan schemes from the untied tax devolution was open, the nature of centrally funded schemes was such that uncertainties started creeping into the project executions. The FC-XIV transfer was also designed based on a very unrealistic own tax projection for Sikkim.

3.1 Overview of State Finances: Sustaining Consolidation Process

Post FRBM Act, Sikkim consistently achieved revenue surplus and managed to contain fiscal deficit within the limits of the FRBM Act. Revenue surplus arises in a state like Sikkim due to dominance of central transfers in the aggregate revenue. The containment of fiscal deficit is a positive development in fiscal management of the State. In 2018-19, the revenue surplus was 2.59 percent of GSDP as against 4.78 achieved in the previous year. The state managed to do better than that of the budget estimate for 2018-19, where of revenue surplus projected to be 2.33 percent. This level of revenue surplus was reasonably high. Sikkim achieved fiscal deficit of 2.40 percent to GSDP in 2018-19, which remained within the FRBM Act limits (Figure 3.1). The situation would set deteriorate in post-Covid times.

While the state achieved revenue surplus and restricted fiscal deficit within FRBM Act limits in 2018-19, the outcomes show some climb down as compared to the previous year. Although, as per the recommendations of the FC-XIV, the state was entitled to take the fiscal deficit to 3.25 percent due to its previous record of fiscal management, the fiscal deficit was budgeted at 2.59 percent of GSDP. This indicates limitations on budget management process at state level due to the factors like resource availability, borrowing limit, and ability to raise spending. In 2018-19, however, aggregate revenue receipts of the state as percent to GSDP was less than the previous year and revenue expenditure was more. Although the capital outlay in 2018-19 declined, the fiscal outcomes in terms fiscal deficit increased and revenue surplus declined as compared to the previous year. The capital outlay declined to 4.99 percent of GSDP in 2018-19 over 6.86 percent achieved in 2017-18 as percentage to GSDP (Figure 3.2).

Figure 3.1
Key Fiscal Variables (% to GSDP)

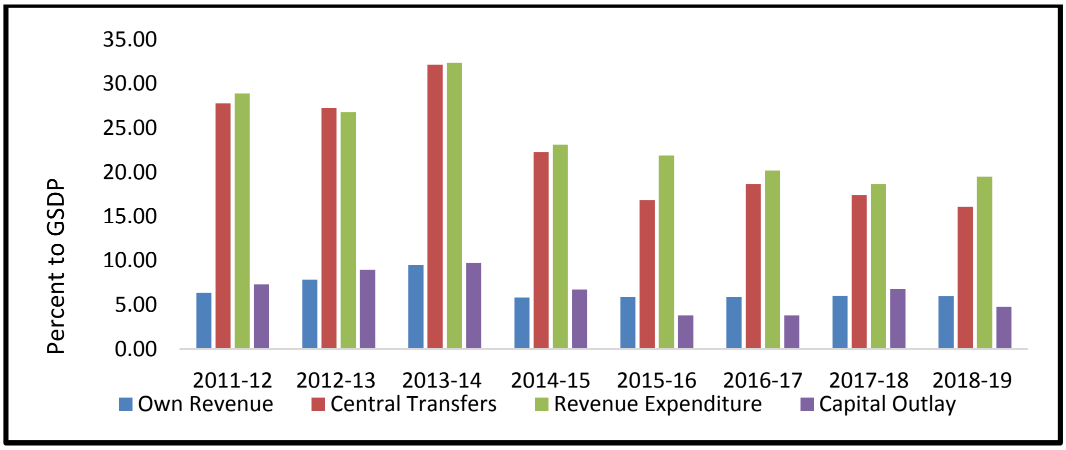


Despite contraction in fiscal space due to decline in revenue receipts as percentage to GSDP as is evident from fiscal outcomes for the year 2018-19, the availability fiscal space needs introspection. Revenue surplus arises due to high dependence on central transfers, all of which are usually booked 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. Receipt of central grants at the end of the financial year, many a time could not be put to use and adds to the revenue surplus same year. The availability of fiscal space in a year becomes favourable to the fiscal management as it helps increasing capital outlay. The decline in capital outlay as percentage to GSDP in 2018-19 becomes a worrying factor for future years as debt has gone up. What is more important for the state is to improve efficiency to be able to utilize the unspent balances.

3.2 The Revenue Side of the Budget in 2018-19

Sikkim witnessed large fall in revenue receipts relative to the GSDP after the recommendations of the FC-XIV in 2015-16. There was a turnaround in revenue receipts in 2016-17. In 2017-18, the aggregate revenue receipts showed a decline to 22.19 percent relative to the GSDP from 22.29 percent achieved in the previous year. The figure for 2018-19 declined further to 22.10 percent. While own tax revenue in 2018-19 show some improvement, own non-tax revenue declined and total own revenue receipts declined to 5.99 percent as compared to 6.05 percent achieved in 2017-18 as percentage to GSDP. Central transfer as percent to GSDP in 2018-19 also declined due to decline in tax devolution. The trends in own revenue receipts, central transfers, revenue expenditures and capital outlay (on general, social and economic services together) are given in Figure 3.2.

Figure 3.2
Broad Fiscal trends in Sikkim



Own revenue receipts suffered a marginal decline from 6.05 percent in 2017-18 relative to GSDP to 5.99 percent in 2018-19 mainly due to contraction in non-tax revenue. The own tax revenue showed improvement from 3.10 percent to 3.54 percent during these two years. The improvement, though small, is a positive development as compared to steady decline in own tax revenue as percentage to GSDP in recent years. The peak in the recent years was in 2013-14, when the own tax revenue was 5.62 percent to GSDP (Table 3.1). Central transfers, which constitutes about three-fourth of the aggregate revenue receipts suffered a decline from 17.43 percent to 16.11 percent of GSDP. It was mainly due to the decline in grants component. Rise in tax devolution from 11.03 percent to 11.86 percent could not compensate the loss in grants.

The own non-tax revenue reported a decline in 2018-19 as compared to 2017-18 as percentage to the GSDP, which affected the on revenue receipts. 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.

Trend of Individual State Taxes

The trend of own tax revenue during the period 2011-12 to 2018-19 relative to GSDP is contained in Table 3.1 shows that aggregate of state taxes increased marginally in the fiscal year 2018-19. It was the sales tax and SGST taken together, which increased from 1.90 percent in 2017-18 to 2.22 percent in 2018-19, helped the own tax revenue to post an improvement over the previous year. The fiscal year 2018-19 was the second year of implementation of goods and services tax (GST). Because of the teething problems in the implementation process and decline in national growth rate, GST fared badly in the first year of its implementation. An improvement in 2018-19 is a positive indication for state finances. Other individual state taxes like excise duty, motor vehicle tax, and stamps duty did not show any increase as percentage to GSDP in 2018-19. While growth rate on tax revenue remained volatile over the years, it grew at rate of 37.73 percent in 2018-19 as compared to 5.48 percent seen in the previous year.

Table 3.1
Revenue Receipts in Sikkim

Percent to GSDP

Heads	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Own Revenues	6.40	7.89	9.49	5.86	5.89	5.89	6.05	5.99
Own Tax Revenues	3.50	4.66	5.62	3.63	3.41	3.48	3.10	3.54
Sales Tax	1.48	2.43	3.06	1.94	1.96	1.94	1.12	0.70
SGST							0.77	1.51
State Excise Duties	1.15	1.19	1.29	0.90	0.85	0.83	0.68	0.68
Motor Vehicle Tax	0.20	0.18	0.20	0.13	0.13	0.13	0.13	0.12
Stamp Duty and Registration Fees	0.10	0.06	0.07	0.05	0.05	0.07	0.06	0.06
Other Taxes	0.58	0.81	0.99	0.61	0.41	0.50	0.33	0.46
Own Non-Tax Revenues	2.91	3.23	3.87	2.23	2.48	2.41	2.95	2.46
Central Transfers	27.79	27.30	32.18	22.29	16.86	18.69	17.43	16.11
Tax Devolution	7.28	7.47	8.16	5.57	11.24	11.03	11.86	10.23
Grants	20.51	19.82	24.02	16.72	5.62	7.66	5.56	5.88

Source (Basic Data): Finance Accounts, State Budget 2020-21, and CSO

The buoyancy coefficients, reflecting the response of tax growth relative to the growth of state economy, for two periods are given in Table 3.2. The longer period buoyancy coefficients, from 2004-05 to 2018-19 shows that taxes have not grown commensurate with the growing economy over the years for which the buoyancy coefficients remain low. The results of regression method adopted to estimate tax buoyancy for a longer period is considered as more robust. The sectors, electricity, and manufacturing, growing rapidly and contributing to growth process since 2008-09 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.

Tax bouncy estimated for more recent years from 2011-12 to 2018-19, shows an improvement as aggregate buoyancy coefficient has exceeded 1. This implies, the tax growth rate has overtaken the GSDP growth rate, albeit marginally. The buoyancy coefficient of sales tax and SGST taken together shows an impressive figure of 1.431. This has positively influenced the aggregate tax buoyancy. It reflects the expansion in economic activity due to higher contribution of industry and services sectors.

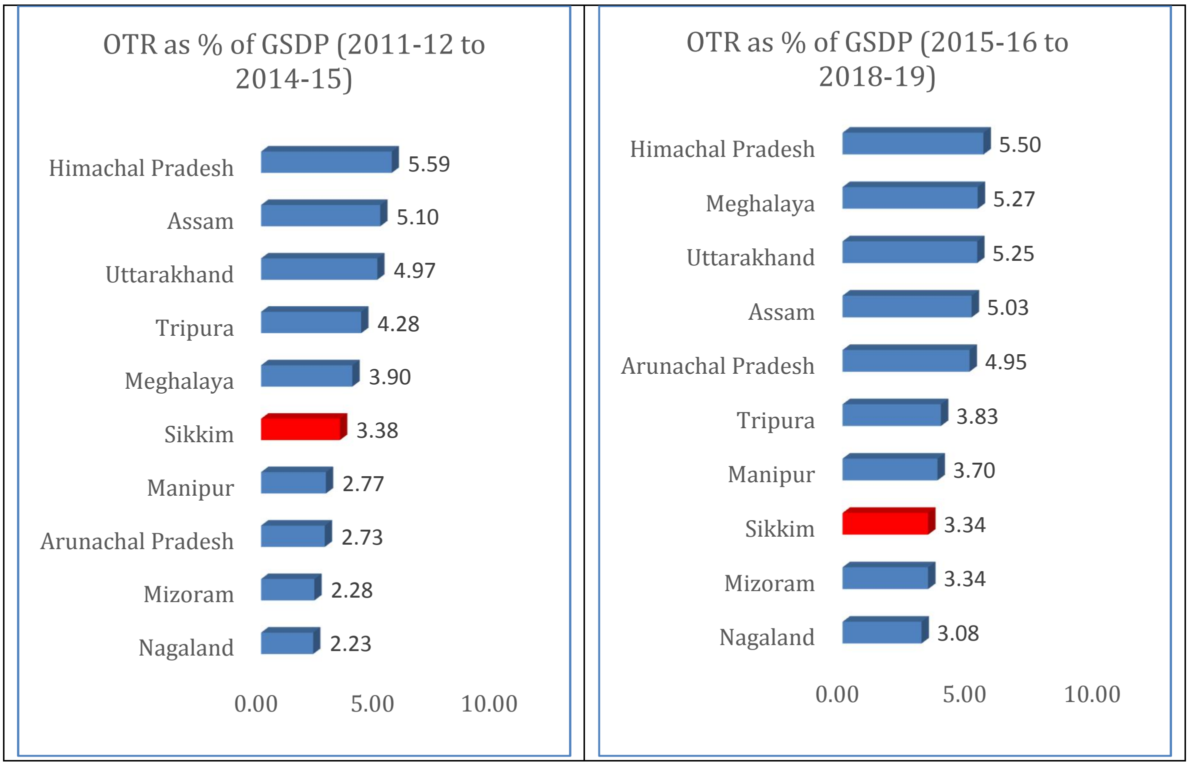
Table 3.2
Buoyancy of State Taxes

	2004-05 to 2017-18	2011-12 to 2017-18
Own Tax Revenues	0.634	1.040
Sales Tax + SGST	0.775	1.431
State Excise Duties	0.656	0.664
Motor Vehicle Tax	0.745	0.854
Stamp Duty and Registration Fees	0.641	1.081
Other Taxes	1.105	0.213

Source (Basic Data): Finance Accounts and State Budget 2020-21

Average Own-tax GSDP ratio across the North eastern and Himalayan states shown in figure 3.3 for two periods - 2011-12 to 2014-15 and 2015-16 to 2018-19 shows that the performance of Sikkim has not improved over the years. As alluded earlier, a higher per capita income does not guarantee higher tax-GSDP ratio, if sector contribution in state GSDP remains out of tax net.

Figure 3.3
Tax GSDP Ratio of North eastern and Himalayan States



The Transfers from Centre

The central transfer to the state is large as it constitutes about three-fourths of the total revenues. While on an average the relative share of central transfers in total revenue receipts during 2011-12 to 2018-19 was 76.57 percent, it has shown sign of declining in recent years. It has declined from 81.27 percent in 2011-12 to 72.88 percent in 2018-19. High dependency on central funds implies distortions in the resource allocation in case there is any deviation from the budget estimates. The central transfer has increased from Rs. 2334 crore in 2011-12 to Rs. 4314.55 crore in 2018-19 in nominal terms. As percentage of GSDP, the Central transfer has declined from about 27.79 percent to 16.11 percent during this period.

In 2015-16, following the FC-XIV recommendations, the share in central taxes has more than doubled as compared to 2014-15, but grants from Centre has declined significantly. The share of grants from Centre to GSDP in 2015-16 came down to 5.62 percent, compared to 15.72 percent in 2014-15 and 16.19 percent in 2013-14. In nominal terms the grants from Centre was Rs. 2427 crore in 2014-15, which came down to Rs. 934.20 crore in 2015-16. Although in 2018-19 there has been rise in transfers in nominal terms, as percentage to GSDP there has been a decline as compared to the previous year.

The year-on-year growth of components of central transfer shows that growth of tax devolution slumped to 3.98 percent in 2018-19 as compared to 27.33 percent in the previous year. The growth rate of grants remained extremely volatile. The decline in grants as percentage to GSDP affected the aggregate transfers adversely despite some improvement in tax devolution.

3.3 The Expenditure Trends

Revenue Expenditure

Broad composition of government expenditure in terms of revenue and capital expenditure classification reflects distribution of expenditure across sectors and to a certain extent shows the priorities depending on availability of aggregate revenue. Revenue expenditure, taking average of relative share during 2011-12 to 2018-19, constitutes about 79 percent of total expenditure (Table 3.3). As revenue expenditure contains large portion of committed spending, this is most likely to be met from the consolidated fund. Despite the pressure and demand for increasing this type of spending, the Government of Sikkim, have contained the growth of revenue expenditure over the years. While the relative share of revenue expenditure was rising since 2011-12, a declining trend has been witnessed after 2015-16. In fiscal year 2018-19, the relative share of revenue expenditure, however has increased to 80.19 percent as compared to 73.37 percent in the previous year. This has resulted in decline in relative share of capital outlay in 2018-19. This trend does not reflects favorably on quality of expenditure.

Table 3.3
Relative Share of Revenue and Capital Expenditure

(Percent)

Heads	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Revenue Expenditure	79.78	74.85	76.84	77.39	85.18	84.02	73.37	80.19
Capital Expenditure	20.22	25.15	23.16	22.61	14.82	15.98	26.63	19.81

Source (Basic Data): Finance Accounts and State Budgets

Resource allocation to different sectors in the revenue account assumes significance as the public expenditure is dominated by the revenue expenditure. In revenue expenditure, the state government spends about 63.45 percent (average during 2011-12 to 2018-19) on social and economic services, out of which 38.25 percent was spent on social services (Table 3.4). Relative share of general services during the same period was 25.17 percent and grants to local bodies was 1.24 percent. The composition of revenue expenditure shows that the share of social and economic services has increased over the years. It is important for the Government of Sikkim to focus on social and economic sectors so that the overall composition of revenue expenditure adds value to the public expenditure.

Table 3.4
Composition of Revenue Expenditure in Sikkim

Percent

Heads	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
General Services	30.97	35.13	34.22	36.17	34.13	37.51	36.81	37.51
Social Services	42.46	37.79	42.19	38.12	33.92	35.24	36.90	39.64
Economic Services	25.27	26.17	22.42	24.46	30.89	25.78	24.77	21.59
Assignment to LBs	1.30	0.91	1.17	1.25	1.06	1.47	1.53	1.27

The annual average growth rate of revenue expenditure in Sikkim, during the period 2011-12 to 2018-19, was 12.95 percent. The revenue expenditure grew at the rate of 25.89 percent in

2018-19 over a low growth of 9.60 in the previous year. Higher growth of revenue expenditure in 2018-19 has increased its relative share in 2018-19. The practice of keeping a control over the growth rate of revenue expenditure, seems to have been reversed due to spending demands of new projects. As percentage to the GSDP, the revenue expenditure increased from 18.70 in 2017-18 to 19.51percent in 2018-19.

The expenditures on wages and salary, pension payments, and interest payment taken together constitute a major portion of revenue expenditure. These spending items being contractual, committed, and pre-determined in nature in nature cannot be avoided or postponed during the year. Higher share of committed expenditure in total revenue expenditure reduces the discretionary expenditure on providing public services and limits the degree of flexibility available to the government in determining allocation of public expenditures. The share of committed expenditure in Sikkim has been increasing in total revenue expenditure. Its share has increased from 59.08 percent in 2011-12 to 65.77 percent in 2018-19 (Table 3.5). Spending and salary and wages drives the committed spending. This has shown increasing trend in last two years.

Table 3.5
Committed Revenue Expenditure in Total Revenue Expenditure

(Percent)

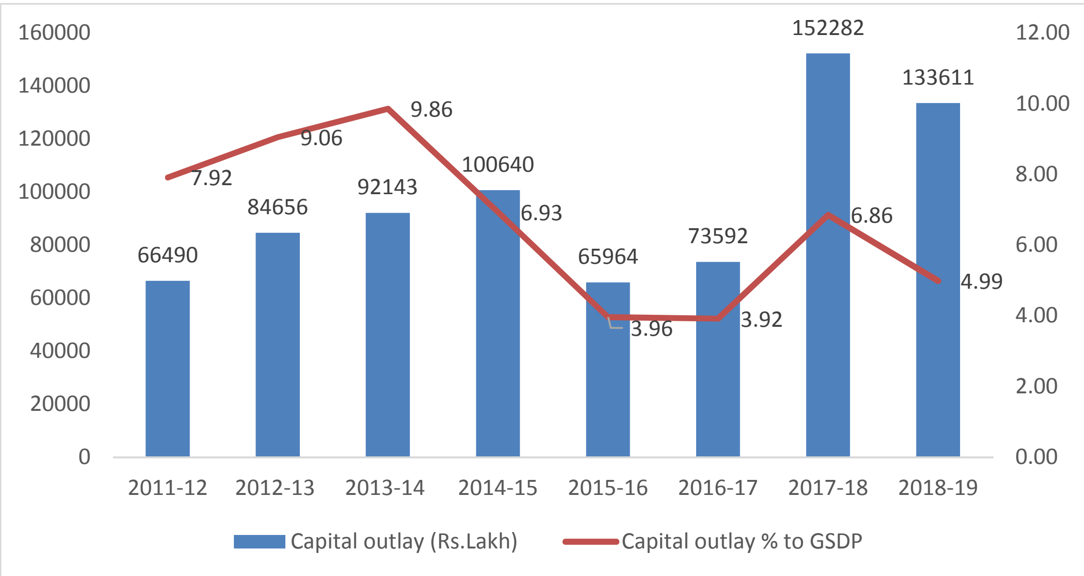
Committed Expenditure	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Interest Payment	7.85	7.93	7.31	7.14	7.19	8.56	8.72	8.29
Pension	7.15	8.98	8.62	9.92	11.04	11.79	12.17	14.11
Salaries and wages	44.08	37.09	44.65	36.83	37.25	37.58	35.62	43.38
Total	59.08	54.00	60.58	53.89	55.48	57.93	56.51	65.77

Source (Basic Data): Finance Accounts and State Budget 2020-21

Capital Expenditure

Capital expenditure in the state is the investment to create social and economic infrastructure, which, often becomes residuary in the system depending upon availability of resources and other recurrent expenditure. Although, it remained reasonably high in the state as percentage to GSDP over the years, a declining trend was perceived due to resource crunch, particularly after decline in central grants following FC-XIV recommendation. The capital outlay on various services (general, social, and economic) increased from Rs. 664.90 crores in 2011-12 to Rs. 1006.40 crores in 2014-15 (Figure 3.4). However, in 2015-16, the capital outlay declined in nominal terms to Rs.659.64 crores. As percentage to GSDP, the capital expenditure declined to 3.96 percent in 2015-16 from 6.93 percent in 2014-15. The decline in central grants after the recommendations of the FC-XIV played an important role in the resource allocation relating to capital investment. This implies the residual nature of capital outlay in the system. There was a marginal revival in 2016-17. In 2017-18, the capital expenditure improved significantly to 6.86 percent of GSDP and in 2018-19 it again declined to 4.99 percent. In terms of nominal numbers, the capital outlay was Rs. 1522.82 crore in 2017-18, which declined to Rs.1336.11 crores in 2018-19. The increase in 2017-18 was due to a onetime grant of Rs.500 crore received by the State in 2016-17, which was actually allocated to capital outlay in this year.

Figure 3.4
Capital outlay in Sikkim



The size of the capital outlay in the state usually is lined with provisions made in the CSS and other Central programs through NEC and NLCPR schemes. The state borrowing, which is usually spent on capital outlay, is limited to the ceilings fixed by the central government aligned with the fiscal deficit target stipulated by the FRBM Act. Thus, the capital outlay will continue to vary depending upon the flow of funds under the central programs and level of resources generated by the state. Decline of capital outlay in 2018-19 is symptomatic of resource trade-off faced by the government in budget management. It is important for the state government to invest efficiently by following the principles of public investment management as capital outlay has a major role to play in stimulating the rate of growth of the state economy. It contributes to growth more directly. The state government should finance identified public investments with high social returns.

3.4 Aggregate Spending Pattern and Priority Areas

Aggregate spending pattern, taking both the capital and revenue expenditure, gives a perspective on spending priorities of the Government and the emerging focus areas. The composition of aggregate expenditure shows that on an average the total expenditure net of debt repayment available to the Government to be utilized on various sectors and administrative services was about 95.89 percent during 2011-12 to 2018-19 (Table 3.6). The relative share of debt repayment and loans and advanced was 3.55 and 0.56 percent respectively during the same period. The relative share of debt repayment has been showing an increasing trend from 1.56 percent in 2011-12 to 5.42 percent in 2018-19.

Table 3.6
Composition of Total Expenditure

Heads	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Total Expenditure net of debt Repayment	96.89	97.78	97.55	97.45	95.04	94.48	94.02	93.91
Public Debt	1.55	2.08	2.20	1.96	4.36	5.16	5.70	5.42
Loans and Advances	1.56	0.15	0.25	0.60	0.60	0.36	0.28	0.67

The composition of total expenditure (net of debt repayment, loans, and advances) in the State indicates that interest payment, pension, and administrative services are important source of Government spending (Table 3.7). These three spending heads taken together constituted 25.14 percent of total expenditure in 2018-19. Expenditure on education, health, water supply and sanitation, and welfare and nutrition remained large spending departments in the social sector. However, there has not been a rise in the relative share of these spending in these services except that of water supply, sanitation and urban development. Agriculture, rural development, electricity, and transport have emerged as priority sectors in the economic services as shown in their relative shares in resource allocation.

Table 3.7
Composition of Total Expenditure (Net of Debt Repayment)

Percent

Heads	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Interest Payment	6.07	5.81	5.48	5.38	5.82	6.80	6.02	6.24
Pension	5.53	6.57	6.46	7.48	8.94	9.36	8.40	10.63
Administrative Services	8.92	9.65	9.82	8.61	9.11	9.46	7.77	8.27
General Services (Rev. Exp.)	3.42	3.68	3.89	5.80	3.76	4.16	3.22	3.12
Compensation to Local Bodies	1.00	0.67	0.88	0.94	0.86	1.17	1.05	0.96
Capital Outlay on Police	0.19	0.20	0.37	0.45	0.11	0.15	0.11	0.02
Capital Outlay on Public works	0.62	2.23	3.83	2.01	1.31	1.35	2.31	0.98
Education Sports Art and culture	17.58	17.24	17.24	17.09	17.58	17.08	15.65	15.35
Medical and Public Health	6.73	6.63	5.90	5.49	5.40	5.54	7.41	5.61
Water Supply Sanitation Housing and Urban Development	6.04	7.94	8.52	8.52	4.65	5.93	7.15	8.88
Welfare of Scheduled Castes Scheduled Tribes and other Backward Classes	0.65	0.60	0.69	0.65	0.77	0.75	0.81	1.15
Social Welfare and Nutrition	9.32	2.26	4.11	2.15	2.72	2.19	2.07	3.09
Other Social Services (Total Exp.)	1.32	1.49	1.77	0.92	0.81	1.59	1.28	1.02
Agriculture and Allied Services	7.65	6.49	6.15	6.57	7.01	5.81	5.22	6.36
Rural Development	3.71	3.78	2.79	4.10	3.24	5.16	3.13	2.11
Irrigation and Flood Control	1.37	1.82	1.46	0.50	0.78	0.64	0.76	1.19
Energy	4.31	4.41	3.46	3.81	5.65	5.69	4.76	3.88
Industry and Minerals	1.55	0.86	0.84	1.05	0.75	0.70	1.19	0.55
Transport	7.64	12.35	10.48	8.60	7.44	8.36	13.46	12.34
Science and Environment	0.09	0.06	0.06	0.07	-0.30	0.10	0.08	0.16
General Economic Services	2.60	2.50	2.26	6.72	8.09	1.87	1.75	1.46
Other Economic Services	0.58	0.54	1.09	0.54	0.56	0.65	0.42	0.54

Source (Basic Data): Finance Accounts and State Budget 2020-21

3.5 Debt Management in the State

Several factors like ceilings determined by central government, FRBM Act provisions, and conditions recommended by successive central finance commissions determine the debt management at state level. Annual borrowing limit for the state is fixed by the union government, which now is pegged at the fiscal deficit limit prescribed by FRBM Act. The composition of state debt also has undergone changes after the recommendation of FC-XII limiting loans from central government. At the same time the recommendation of the FC-XII helped in reducing average cost of debt and debt burden of the states through debt restructuring formula. The debt restructuring formula was conditioned on states willingness to adopt fiscal rules and abide by the fiscal consolidation path suggested by the Commission. The FC-XIII recommended state wise debt-GSDP ratios, which became part of state FRBM Acts. The fiscal management principles contained in FRBM Act calls upon the state to maintain debt burden at sustainable level.

The FC-XIV in their fiscal roadmap for the states recommended anchoring the fiscal deficit at 3 percent of the GSDP. The states can avail the flexibility to increase this limit by 0.5 percentage points, 0.25 percent separately depending upon conditions prescribed. One of the major conditions was to limit the debt-GSDP ratio to 25 percent in the previous year. Thus, for all effective purposes the benchmark of debt-GSDP ratio was 25 percent. The State remained within this limit. The State availed higher level of fiscal deficit in 2016-17 and 2017-18 based on this achievement and other prudency conditions recommended by the Commission.

The aggregate level of indebtedness in 2018-19 indicates that the state government complied with the FC-XIV recommendations and its own FRBM targets. The indebtedness of the Government of Sikkim, which was showing some decline since 2011-12, has started increasing in 2016-17 (Table 3.8). Taking all types of liabilities, stands at 23.65 percent in 2018-19. Increase in internal debt of the Government was one of the factors for this rise.

Table 3.8
Liabilities of the Government of Sikkim

(Percent of GSDP)

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Public Debt	22.05	21.17	23.39	17.29	17.85	18.69	18.99	18.61
Internal Debt	20.18	19.57	22.03	16.46	17.16	18.10	16.31	18.25
Loans from the Central Govt.	1.87	1.59	1.36	0.83	0.68	0.59	2.68	0.36
Other Liabilities	8.34	8.35	9.45	6.69	5.96	6.21	5.56	5.04
Small savings, Provident Fund	6.89	6.68	7.34	4.89	4.50	4.43	4.11	3.75
Reserve Fund	0.22	0.14	0.55	0.84	0.51	0.50	0.26	0.24
Deposits	1.23	1.53	1.56	0.95	0.96	1.28	1.19	1.04
Total Public Debt & Other Liabilities	**30.39**	**29.51**	**32.84**	**23.98**	**23.81**	**24.90**	**24.55**	**23.65**

Source (Basic Data): Finance Accounts, Relevant Years. For GSDP data, figures used in state budget are used here to find the ratios.

4. Compliance to Provisions of FRBM Act

Budgeting in India in general and at the level of states in particular, is rule driven process. The budgeting process involving demand for resources by ministries and departments, control and supervision of finance department, preparation of budget, legislative control over financial management, budget implementation process during the year, reporting of financial transactions, and auditing process are based on established budgeting rules and regulations. However, the conventional budgeting is an open-ended process that does not restrict government incur spending based on popular demands beyond its resource capacity resulting in fiscal imbalances. The fiscal rules (in the form of FRBM Act) counters this tendency by facilitating budgeting within fixed constraints stipulated through fiscal targets, improves transparency and enhances political acceptance[5].

The assessment of compliance of the state government to the FRBM Act provisions for the year 2018-19 is important to evaluate state's capacity, commitment and fiscal management practices in pre-Covid period. This is the period, when the states were facing resource problem and fiscal stress was building up. The inherent strength in state's economy, prudency in fiscal management, and commitment to fiscal rule will be crucial factors to come back to fiscal consolidation path. The assessment report in addition to fiscal targets, looks into issues like establishing fiscal transparency, medium term framework for budget management, improving budget predictability, and improving institutional measures. These are crucial features of a sound public financial management system and are part of building blocks of FRBM Act.

4.1 Provisions of FRBM Act

Major milestones in fiscal consolidation process includes maintaining balance in revenue account, limiting fiscal deficit to fiscal rules targets and prudent debt management. The FRBM Act of the State, with amendments in 2011, stipulates these fiscal targets and contains the broad fiscal management principles and transparency measures. The major provisions of the Sikkim FRBM Act are as follows;

- Present a Medium Term Fiscal Plan (MTFP)

[5] Schick, Allen (2003), "The Role of Fiscal Rules in Budgeting", OECD Journal of Budgeting, vol3, no.3

- 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 rules associated with the Act further detail the requirements, documents to be prepared, and the quantitative limits of the fiscal indicators. The rules provide the form in which the medium-term fiscal statements are presented to provide relevant information about Government's activities and enhance transparency.

- **The Macro-economic Statement:** It is expected to give an overview of the state economy, analysis of GSDP growth, overview of state government finances and assessment regarding growth prospects and fiscal prospects.
- **Medium Term Fiscal Policy Statement:** The Medium-Term Fiscal Policy (MTFP) forms the core of the FRBM Act related documents. This statement gives two-year outward projection of fiscal outcomes like revenue deficit, fiscal deficit, and outstanding liabilities as percentage to the GSDP in addition to the revised estimates of current year and budget estimates of the ensuing year. The statement is supposed to include assumptions relating to the trend of fiscal variables leading to the projection of major fiscal outcomes. The MTFP gives assessment regarding the balance between revenue receipts and revenue expenditure and use of capital receipts for generating productive assets. Thus, the MTFP contains a fiscal plan of the state government for the ensuing budget year and three outward years.
- **The Fiscal Policy Strategy Statement**:

a) The fiscal policy strategy statement contains the fiscal stance of the state government with respect to fiscal targets for the ensuing year, revenue generation efforts, expenditure plan and consequent borrowing requirements.
b) The strategic priorities of the government;
c) The reasons for any major deviation in fiscal measures pertaining to taxation, subsidy, expenditure, administered pricing and borrowings;
d) An evaluation of the current policies of the Government based on fiscal objectives and fiscal principles enunciated in the Act.

- **Disclosures:**

The FRBM Act stipulates the governments to provide data and information on fiscal variables and outcomes of fiscal transactions. These are called disclosure statements and rules to the Act specifies the format in which this information is to be given. The wide range of data and information given in FRBM document is expected to enhance transparency in the system and help the policy makers to take informed decisions.

- **Half-yearly Progress Report**

Minister in charge of finance is supposed to present a half-yearly progress report on ach8ievement of FRBM Act provisions. If there is any shortfall in revenue or excess of expenditure over the half-year targets mentioned in the Fiscal Policy Strategy Statement, the minister is supposed to provide the account of corrective measures taken by the government.

The MTFP provides the fiscal plan of the Government for the budget year and two outward years delineating revenues raising efforts, resource allocation priorities, and borrowing plan in a transparent way. The Government of Sikkim presented the MTFP for the year 2018-19 based on the FRBM rule format that contains macroeconomic statement, projections of fiscal targets and fiscal management principles with regard to revenues and expenditures. 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 state economy, strategic priorities for revenues and expenditures, and 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 2018-19. The MTFP taking into account existing programs and new programs announced by the Government in its spending projection.

While MTFP is presented along with budget, the Act mandates the state government to present a half-yearly report card on progress to achieve the FRBM targets as part of enforcement mechanism. The rules to the FRBM Act 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 FRBM Act are guiding principles to conduct the fiscal policy in the State to facilitate achievement of the required fiscal targets.

- **Fiscal Targets**

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

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

The FRBM Act of the State was supposed to take recommendations of the FC-XIV, if any, to revise its debt-GSDP targets. The FC-XIV, while anchoring the fiscal deficit at 3 percent of the State GSDP, recommended an increase of 0.5 percentage points, 0.25 percentage points separately, based on certain conditions relating to fiscal outcomes in the previous years. One of the conditions was to limit the debt-GSDP ratio to 25 percent in the second preceding year. The FC-XIV, however, gave an illustrative operation of fiscal rules in which they used debt-GSDP ratios to reduce the aggregate debt-GSDP ratio to the desired fiscal consolidation path. The state government took the debt-GSDP ratio worked out in this illustrative exercise as recommended targets for Sikkim and included then in the amendments in 2016. These targets were less than what the state has been reporting since 2015-16. The debt-GSDP targets stipulated in the amended FRBM Act of 2016 looks little problematic from fiscal management point of view as it makes a sudden reduction from 55.90 percent in 2014-15 to 20.63 percent in 2015-16. However, for the purpose of this review report we have used debt-GSDP targets of 25 percent as the benchmark to assess the State's compliance.

4.2 Compliance of the State Government to the FRBM Act Targets: 2018-19

As discussed in an earlier section, the state managed to generate revenue surplus in 2018-19 and remained within the FRBM Act limits for fiscal deficit. Aggregate revenue receipt declined as percentage to GSDP in 2018-19 as compared to the previous year due to lower receipt of central transfers and own revenue. The revenue expenditure increased as percentage to GSDP for which surplus in revenue account has declined as compared to the previous year.

The aggregate revenue receipts, as percentage to the GSDP in 2018-19 was 22.10 percent, as compared to 23.48 percent in 2017-18. The revenue expenditure at 19.51 percent in 2018-19 was higher by 0.81 percentage points as compared to the previous year. The subdued revenue performance and uptick in revenue expenditure pushed the capital outlays down by 1.96 percentage points in 2018-19 as compared to the previous year. The onetime grant of Rs.500 crore received by the State Government in 2016-17, which was mostly utilized for capital outlay in 2017-18 was available in 2018-19. Fiscal outcomes for 2018-19 indicates that despite unfavorable resource positions, the state remained within the FRBM Act fiscal targets.

Although the state could have expanded its spending program in view of its eligibility to increase the fiscal deficit target and resultant availability of fiscal space, rising debt burden, uncertainties in resource flow and the ability to enhance total expenditure constrained the government. There is a need to improve capacity to implement programs and conceive socially productive projects.

The fiscal targets specified in the FRBM Act and the outcomes for the year 2018-19 are shown in Table 4.1. Against the Act requirement of maintaining balance in the revenue account, and limiting the fiscal deficit to 3 percent of the GSDP, the State Government achieved a revenue surplus of 2.59 and incurred a fiscal deficit of 2.40 percent of GSDP. In nominal terms, the amount of revenue surplus declined from Rs. 1060.95 crore in 2017 -18 to 693.78 crores in 2018-19. As alluded above there has been a pressure budding up in fiscal management as can be seen from declining revenue surplus and rising fiscal deficit.

Outstanding debt burden, an outcome of the fiscal management of the State, at 23.65 percent relative to the GSDP remained within broadly accepted debt-GSDP ratio specified by the FC-XIV at 25 percent. The other fiscal target, outstanding guarantees, remained within the specified limit of Sikkim Ceiling on Government Guarantee Act 2000. The fiscal outcomes for the year 2018-19 indicates that the State complied with the fiscal targets stipulated in the FRBM Act.

Table 4.1
FRBM Act Targets and Fiscal Achievements during 2017-18

Percent

	Targets	Achievements
Revenue Deficit (-)/surplus (+) % of GSDP	0	2.59
Fiscal Deficit % of GSDP	-3.00	-2.40
Total Debt Stock % of GSDP	25	23.65
Outstanding Guarantees	Restricted to the limit under the Sikkim Ceiling on Government Guarantees Act, 2000	

4.3 Fiscal Management Principles

The State FRBM Act includes guiding fiscal management principles that call on the Government 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 are unique features of subnational fiscal rules in India. The Act does not fix any targets or give any indicator to assess these principles like those for mandatory fiscal targets.

The objective of including fiscal management principles in the FRBM Act is to influence the policy making to achieve policy objectives and facilitate adherence to agreed-upon fiscal strategy. The fiscal management principles reflect the necessity of strengthening public financial management system (PFM) and institutional process. These principles inculcate accountability to achieve the statutory targets. In many ways these are inherent in the economic policy making of governments at any level and can be properly assessed only over a reasonably long period with continuous monitoring of relevant fiscal data. In the context of Sikkim, the fiscal management principles assume significance due to the challenges like lack of adequate resource base, a large committed spending, and provision of public services in a difficult terrain, which becomes costly. The important fiscal management principles enshrined in the FRBM Act are discussed here.

Prudent Debt Management

Borrowing responsibly to maintain debt at a prudent level, manage guarantees and other contingent liabilities within stipulated limits, and using borrowed funds for productive purposes to create capital assets forms the set principles of debt management suggested in the

FRBM Act of Sikkim. It is akin to the golden principle of not using borrowed resources for financing recurrent 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 at 23.65 percent in 2018-19 satisfies the test of prudency as suggested by the FC-XIV.

State Governments in India are not free as their own borrowing powers are concerned. States need Centre's consent in order to borrow in case the state is indebted to the Centre over a previous loan following Article 293(3). In practice Ministry of Finance, Government of India, determines the limit for state government borrowing. This limit acts as an external control in rule based fiscal management. Since the recommendations of the FC-XIII, the central government fixes the borrowing limit of a state based upon the fiscal deficit target stipulated in the FRBM Act. Due to favorable cash balance position, the state government sometimes does not exhaust the borrowing limit. The accumulated debt stock continued to decline, as the growth of the nominal GSDP has remained high in Sikkim. Although there has been some increment in debt GSDP ratio since 2016-17, it has remained within the FC-XIV prescribed limits.

Borrowing and repayment for the year 2018-19 shown in Table 4.2 reveals that actual public debt that includes internal debt (market and institutional borrowing) and loans from Central Government was more than the budget estimates. While the repayment against the internal loans and loans from central government exceeded the budget target marginally, the repayment against the small savings and provident fund was less than what was planned in the budget. As a result the aggregate repayment was less than the aggregate borrowing, which added to the stock of the debt in 2018-19.

The FRBM Act calls upon to follow the "Golden Rule" of government spending which implies that a government should only increase borrowing in order to invest in projects that will pay off in the future. Under the Rule, existing obligations and expenditures are to be financed through taxation, and not issuing new sovereign. As the government manages to generate revenue surplus, this principle seems to have been followed.

Table 4.2
Borrowings and Repayments: 2018-19

(Rs. Crore)

	Budget Estimates	Actual	Difference
Public Debt Receipts			
Internal Debt	1028.48	1140.09	111.61
Loans Advances from Central Government	0.04	5.11	5.08
Public Debt	**1028.52**	**1145.21**	**116.69**
Small Savings and Provident Fund	**335.50**	**323.01**	**-12.49**
Total	**1364.02**	**1468.21**	**104.20**
Debt Repayments			
Internal Debt	365.15	365.44	0.29
Loans Advances from Central Government	10.17	10.44	0.27
Public Debt	**375.32**	**375.88**	**0.56**
Small Savings and Provident Fund	**262.40**	**229.08**	**-33.32**
Total	**637.72**	**604.95**	**-32.76**

Source: Finance Accounts and Budget Document for the year 2018-19 & 2020-21

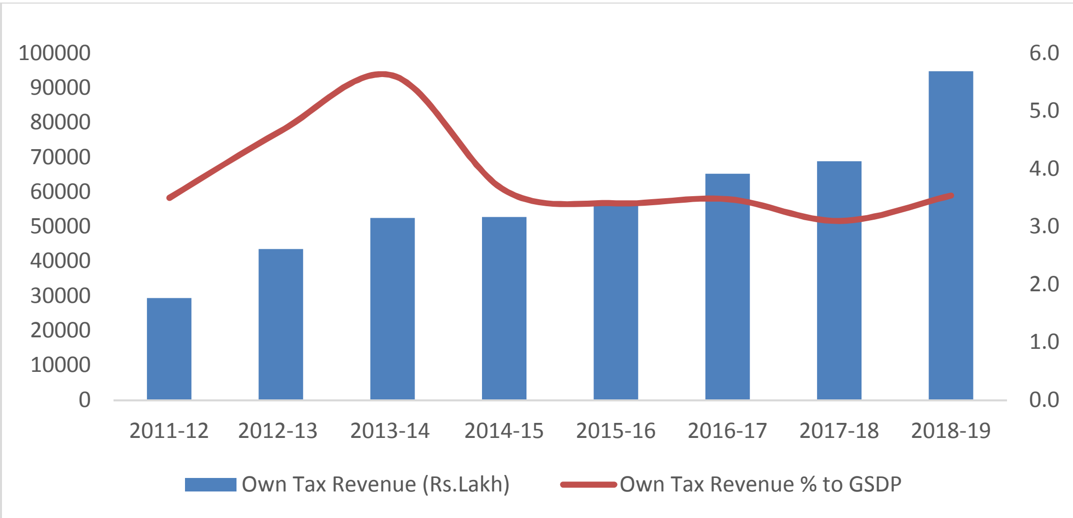
Simplifying Tax Policy and Administration

The FRBM Act requires the State Government to maintain integrity of the tax system by minimizing discretionary policies like special incentives, concessions and exemptions. It also emphasizes on pursuing the tax policy with due regard to economic efficiency and compliance cost. 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.

Own tax revenue constituted about 16 percent of total revenue receipts in 2018-19, which was up from 13 percent achieved the previous year. Although, own tax receipt has not emerged as driving force of the resource envelopes, as percentage to GSDP it remained smooth since 2014-15 (Figure 4.1). One of the important features of a good tax system is to maintain stability and predictability in the level of tax burden. There have not been many changes in tax rate of individual State taxes. While, the VAT regime, introduced in 2005 had stabilized in terms of rate and base structure in the State, the newly introduced GST has emerged as an important source of revenue for the government. 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.

Cost recovery and equity have been the core themes in the case of non-tax revenues according the fiscal management principles enunciated in FRBM Act. Non-tax revenue of the state on an average contributes about 9 to 10 percent to the aggregate revenue receipt. 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. The lottery income has not proved to be stable source of income. The scope for reducing subsidy and improving cost of 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 recovery cost in economic sectors by improving the quality of the service provided.

Figure 4.1
Own Tax Revenue as Percentage of GSDP



Expenditure Policy and Institutional Measures to Improve Quality of Expenditure

The FRBM Act calls upon the state government to focus on economic growth, poverty reduction, and improvement in human development in allocating resources. The fiscal management principles also require 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.

In an earlier section we have shown emerging priority sectors of the state by analyzing relative expenditure shares of different sectors. While the interest payment, pension, and administrative services have remained important spending items, education, health, agriculture, rural development, transport, electricity, and water supply and sanitation and urban housing continue to be large spending departments in Sikkim. This spending pattern reveals the focus areas of the Government, which broadly includes rural, and agriculture sector and infrastructure. The decline in capital outlay in 2018-19, when compared to the previous year, should not be perceived as a pointer to to declining quality of expenditure. The Government needs to expand its own resource base in addition to adopting better expenditure management practices to get value for money in the utilization of resources in the priority sector.

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.1, 81,842 in 2011-12 to Rs. 4, 30, 339 in 2018-19 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.

Fiscal transparency measures enunciated in the FRBM Act 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. However, thee disclosure statements containing data and information do not cover all aspects of budget management.

The public financial management system in general and budgeting system in particular suffer from lack of predictability in fund flows resulting in discrepancies between intents and achievements. The fiscal management principles enshrined in the Act cautions to avoid such divergences by improving efficiency of budget management practices. The State is heavily dependent on central transfers that includes share in central taxes and central grants. In addition to centrally sponsored schemes, grants from agencies like DONER and NEC for infrastructure projects form significant part of funding. 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 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.

4.4 Budget Credibility: Projections and Outturns

In a federal country like India, where the state governments bear major functional responsibilities following constitutional provisions spanning over social and economic sectors, a credible budget is crucial to reduce uncertainty and risks in fiscal management. The performance of sub-national governments, in terms of service delivery and achieving policy goals, depend upon the performance of their budget. The ability of the government to provide quality public services, to meet the entitlements of citizens, and to make the information accessible depends upon the implementation of the budget as planned. The FRBM Act in the state calls upon to establish stability and predictability in the fiscal management for which the budget should be formulated in an objective manner with due regard to the general economic outlook and realistic revenue prospects and minimize deviations during the course of the year.

A realistic budget minimizing deviation from budget estimates implies the capacity of the Government to deliver the public services as promised in budget. Ability to raise the projected revenue and utilize the budgeted expenditure becomes crucial in this context. The importance of this feature lies in avoiding bias in forecasting the revenues and allocating resources to various programs. Higher projection of revenue to fund announced programs creates huge inconsistencies in budget execution. At the same time underestimating the revenue results in utilization of excess funds without proper planning and going through established accountability framework. As Sikkim depends considerably on the central transfers, realizing the estimated resource depends upon the actual flow of grants.

There are procedures to adjust the budget through supplementary demands to take care of exigencies and to use surplus funds from other programs. However, the budget adjustment through supplementary demands should not be too large to reduce the sanctity of the budget.

Comparison of actual revenue generated, and expenditure incurred with the original approved budget and the extent of deviation from the projections gives the measure of budget credibility. In this section, a comparison between budget estimates and outturns of revenue receipts and expenditure for the year 2018-19 is provided in Table 4.3 to show the deviation from budget estimates. This exercise on budget credibility helps understanding many of the observation made earlier relating to revenue effort and spending pattern.

Aggregate revenue receipt in 2018-19 at Rs.5920.36 crores show growth of 13.57 percent over the previous year. When compared to the budget estimates, the actual receipts fell short of Rs.60.57 crores, which amounts to 1.01 percent of budget estimates (Table 4.3). This level of deviation is small according Public Expenditure and Financial accountability (PEFA) framework. Deviation below 3 percent gets a top score implying good performance.

Meeting aggregate revenue receipt projections became possible due to improved performance in own revenue generation. Own tax revenue outturn exceeded the budget estimate by Rs.177.71 crores, which amounts to a massive improvement of 23.07 percent over the budget estimates. Similarly, non-tax revenue exceeded the budget targets by Rs.175.86 crores, which amounts to 36.49 percent increment over budget estimates. Generating more revenue as compared to the budget target proved to be favorable to the Government given the fact that the central transfers fell short of budget forecasts. As we have discussed earlier, underestimating the revenue potential does not bode well for taking resource allocation decisions.

The aggregate central transfers fell short of the budget estimates by about Rs.414.14 cores in 2018-19, which constituted 8.76 percent of budget estimates. Tax devolution to the State fell short of budget estimates by Rs.102.73 crores or 3.55 percent of the budget estimates. The shortfall in grants from Centre was larger. Taking all kind of grants, the actual receipt was less by Rs.261.37 crore from the budget estimates, which forms about 14.23 percent of the budget estimates. The budget projection in the case of both tax devolution and grants has been way of the mark. Preparation of budget based on anticipated central component for various schemes did not materialize entirely.

Higher receipt of own revenue as compared to budget estimates in 2018-19, to a large extent was related to improvement of GST collection. The state gained in terms of higher SGST, which is part of own tax revenue. The less than expected performance GST in 2017-18, the first year of implementation, seems to have influenced the budget projections for which the projections for 2018-19 failed to capture the expected receipts.

Table 4.3
Budget Estimates and Outturns for the year 2018-19

(Rs. Crore)

	2017-18	2018-19	2018-19 (BE)	Difference (Actual to BE – 2018-19)	Difference in % to BE
Revenues	**521279**	**592036**	**598093**	**-6057**	**-1.01**
Own Tax Revenues	**68833**	**94802**	**77031**	**17771**	**23.07**
Own Non-Tax Revenues	**65438**	**65778**	**48192**	**17586**	**36.49**
Central Transfers	**387008**	**431456**	**472870**	**-41414**	**-8.76**
Tax Devolution	263466	273957	177384	-102.73	-3.55
Grants	123542	157499	183636	-26137	-14.23
Revenue Expenditure	**415185**	**522658**	**535627**	**-12969**	**-2.42**
General Services	152813	196025	216935	-20910	-9.64
Social Services	153215	207177	165539	41638	25.15
Economic Services	102825	112817	145821	-33004	-22.63
Compensation and Assignment to LBs					
Capital Expenditure	**152282**	**133611**	**131868**	**1743**	**1.32**
Capital Outlay	150678	129131	130396	-1265	-0.97
Net Lending	1604	4480	1472	3008	204.31
Revenue Deficit	**-106095**	**-69378**	**-62466**		
Fiscal Deficit	**46187**	**64233**	**69401**		
Primary Deficit	**9970**	**20928**	**23047**		
Outstanding Debt	**545104**	**1122383**	**609920**		

Source: Basic data – Finance Accounts and Budget Document for the relevant

The aggregate spending outturns for the year 2018-19 shows that, the government managed to remain close to the budget projections in both revenue and capital expenditures. While revenue expenditure fell short of 2.42 percent over budget projections, capital outlay exceeded the budget projections by 1.32 percent. This level of deviation from budget estimates is considered as small as per the international standards given in PEFA framework and government performance would be considered good.

The deviation in aggregate revenue expenditure was the result of interplay of many spending items at disaggregated level. In revenue expenditure, while spending on social services exceeded the budget estimates by a large margin of 25.15 percent, the economic services fell short of the budget targets by 22.63 percent. The general services fell short of the budget targets by 9.64 percent. Looking at the actual spending pattern at disaggregated level, there are many issues in budget management practice.

While, the Government planned to generate revenue surplus of Rs.624.66 crores amounting to 2.13 percent of GSDP, the actual surplus was higher at Rs.693.78 crores, which was 2.59 percent of GSDP. While budget projected a fiscal deficit of 2.59 percent of GSDP, the achievement was 2.40 percent of GDP. The debt stock in 2018-19 was at 23.65 percent as compared to the projected level of 22.77 percent of GSDP. The achievement of fiscal outcomes do not show a large variation from the budget estimates.

The comparison of the budget outcomes and estimates reveal several issues pertaining to expenditure management and budget projections. State government managed to improve upon its own revenue receipts as compared to the budget projections. The decline in aggregate central transfers affected the aggregate revenue receipts. The fiscal year 2018-19 was the fourth year of a changed fiscal transfer system in which tax devolution was raised and the plan grants were considerably curtailed.

Although the difference in actual and budget estimates in revenue and capital outlay was not planned to generate higher surplus and low fiscal deficit, the inadequacies in budget management practices seems visible at the disaggregated level. In addition to non-receipt of grants creating problems for project implementation, the process of execution, release of state's share, and structural hurdles also affects the actual spending. While the deviation in general services in revenue expenditure could be considered as economy move to control revenue expenditure growth, large deviation in economic services hampers the service delivery and prospects of future projects as this sector is considered as a productive government sector.

The components of revenue and capital expenditure show deviations in terms of falling short of or at some places exceeding the budget estimates. The appropriation account gives details of department wise savings and exceeds spending. Some of the budget heads are given here in Table 4.4 to illustrate the problems existing in implementing the programs.

The inability to spend the available funds, non-receipt of the entire central funds as budgeted, and late receipts central funds in some CSS programs 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. There are instances, where 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, better coordination to avail the full benefit of the central funds is necessary. The deviation in capital expenditure is also closely related 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.

Table 4.4
Non-receipt of Central Funds

Head	**Unreleased Grants**	**Amount (Rs. In lakh)**
2702- MINOR IRRIGATION	Surface Water- Division Schemes	7270.81
2401- CROP HUSBANDRY	National Mission on Sustainable Agriculture	1663.45
2702-MINOR IRRIGATION	Pradhan Mantri Krishi Sinchai Yojana-Har Khet do Pani	100.80
4215-CAPITAL ON WATER SUPPLY AND SANITATION	Drainage and Sewerage system in South Distict	1079.67
4801-POWER	Schemes under Non-Lapsable Pool of Central Resources	1416.67
4801-POWER	Schemes under North Eastern Council (NEC)	568.67
4215-CAPITAL ON WATER SUPPLY AND SANITATION	Water Supply Scheme for South District	2687.28
2235- SOCIAL SECURITY AND WELFARE	I.C.D.S. Programme	841.89
2070-OTHER ADMINISTRATIVE SERVICES	Skill Development Mission	1135.51
2435-OTHER AGRICULTURAL PROGRAMMES	Agriculture Department	582.45
4217- CAPITAL OUTLAY ON URBAN DEVELOPMENT	Construction Parking Place at Namthang	1092.78
2202- GENERAL EDUCATION	Other Expenditure-National Education Mission	5233.61
2202- GENERAL EDUCATION	University and Higher Education-National Education Mission	2080

4202- CAPITAL OUTLAY ON EDUCATION, SPORTS, ART AND CULTURE	Secondary Education- Buildings	1173.79
2216- HOUSING	Pradhan Mantri Awas Yojana	500
2217-URBAN DEVELOPMENT	Scheme under Ministry of Urban Development and HUPA	249

Providing utilization certificate in timely manner, minimizing the layers of authorities involved in clearing the project proposals, and effectively utilizing the contractors (cooperative societies at grassroots level) should be crucial factors in implementing the projects. Issues like delay in clearance for acquiring forestland, delay in starting of the work, delay in utilization of previous installment, non-receipt of State's share and non-receipt of central grants and NEC grants are some of important factors that need to be addressed. Land acquisition is another issue that continues to bedevil the departments building infrastructure projects. Further, overarching principles involving investment management system that includes selection of projects, estimating cost, planning and budgeting, monitoring and control system should be improved for better utilization of public resources and achievement of the stated objectives.

Uncertainties created due to non-receipt of central transfers and late receipt of funds, which could not be utilized during the year, is another that needs to be addressed for better utilization budgeted resources. The non-receipt of central transfers is the difference between what was budgeted and what was actually received from the Central Government. The non-receipts of central funds for various programs is detailed in Table 4.4 that includes CSS, NEC, NLCPR, NABARD and so on. 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.

It becomes a challenge to utilize the resources, if large proportion of central transfers received during the last quarter of the fiscal year. In 2018-19, the unspent amount remains high at Rs.600 crores. The receipt of central funds in the last quarter was Rs.459.79 crores, which forms 29.35 percent of total receipts. This is not a large receipt given the history of central transfers. However, the receipt in the last month of the fiscal year, March was Rs.315.68 crores. This amounting to 20.15 percent of total receipts, looks large (Table 4.5). Although, the government usually includes the unspent amount in the spending plan for the following year on the projects conceived in the budget year, the spending plan of the budget for the current year is not met.

Table 4.5

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

Rs.Crore

Scheme Name	Total Receipts	Receipts in March	Receipts during January to March	Unspent Balances
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**
2015-16				
Plan Central Sector	314.81	6.49	140.51	158.74
CSS	536.14	72.87	150.58	47.67
Total	**850.95**	**79.36**	**291.09**	**206.41**
2016-17				
Plan Central Sector	247.07	20.57	56.23	397.52
CSS	642.11	89.52	140.69	170.34
Total	**889.18**	**110.09**	**196.92**	**564.86**
2017-18				
Plan Central Sector	328.47	88.02	108.05	383.35
CSS	1022.25	249.48	304.35	500.73
Total	**1350.72**	**337.50**	**412.40**	**884.08**
2018-19				
Plan Central Sector	481.06	110.09	179.69	202.18
CSS	1085.43	205.59	280.04	397.84
Total	**1566.49**	**315.68**	**459.73**	**600.02**

Projecting central grants for various programs in anticipation has resulted in biased view of resources. There is a need to take realistic perception of central program funds and prepare the budget accordingly. Otherwise, it will be construed as an overestimation of revenues to accommodate ever-increasing budget size. The state government has to address capacity constraint to undertake infrastructure building. Enhancing the capacity to conceptualize projects and implement them properly and removing ground level bottlenecks in the implementation process are important issues that needs to be addressed. The structural issues like acquiring land, improving coordination among departments, improving efficiency in project management should get attention. It is important for the State Government to improve coordination with the Central Government for better fund flow system to enable timely availability of funds for programs.

5.Concluding Remarks

Fiscal rules provide self-restraint to politicians and executive to observe fiscal discipline, which is foremost factor to improve allocative and operational efficiency in public finance. A sound public financial management (PFM) system is crucial for sustainable fiscal position, improvement of allocative efficiency and achieving operational efficiency in service delivery. The independent review of fiscal management process by assessing state's compliance to provision of fiscal rules provides an institutional framework to improve accountability and transparency. It facilitates legislative control over financial management of the state government. The state of Sikkim had adopted independent review feature in the fiscal rules following the recommendations of before the FC-XIII.

The COVID-19 pandemic has disrupted public finance in the country resulting in loss of revenue and reduced fund flows to states. The states were allowed to increase borrowing and the FC-XV recommended a gradual fiscal consolidation path starting from 2021-22. Achievement of fiscal consolidation by states will depend on economic growth and availability of resources both through internal effort and central transfers. Strengthening PFM system and adherence to amended FRBM Act targets will be important. The achievements during pre-Covid period, particularly in 2018-19 as covered in this review, will serve as performance indicator to judge the ability and commitment of the state to comply with FRBM Act provisions. The review report in addition to fiscal targets looks into the quality and direction of public spending, fiscal governance, and institutional development. These issues will be crucial while the state addresses the fiscal challenges brought on by the pandemic.

State finances of Sikkim in 2018-19 shows that fiscal outturns complied with the provisions of FRBM Act taking into consideration the available revenue receipts from various sources and spending priorities. While the state government managed to improve on own tax revenue efforts, predominance of central transfer became major driving force as it declined relative to state GSDP. The aggregate revenue receipts remained lower than the previous year as percentage to GSDP. The resource trade-off and spending demands seems to have resulted in increasing revenue expenditure and reducing capital outlay as compared to previous year. The state continued to generate revenue surplus and remained within the FRBM Act limit for fiscal deficit. The debt burden in 2018-19 was below the benchmark set by the FC-XIV.

Despite satisfying fiscal rule requirements, the state faced some fiscal pressure as debt-GSDP ratio increased in 2018-19.

The challenges posed by the recommendations of the FC-XIV and consequent changes in fiscal transfer system continued to affect the state finances. Sikkim is one of the few states, which did not gain from the change of the fiscal architecture. The gain in the tax devolution following the recommendations of the FC-XIV, could not manage to compensate for the loss of plan grants. This was again became visible in 2018-19 when aggregate transfers declined as compared to previous year relative to GSDP. The tax devolution showed a growth rate of 11.58 percent and the growth of grants was only 3.98 percent over the previous year. The uncertainties in fund flow also continued to put pressure on spending pattern. While the FC-XIV expected that, the higher tax devolution would provide more flexibility to the states to manage its spending pattern, uninspiring performance of central transfers continued to affect overall resource availability.

In addition to fiscal targets, the Act calls upon the government to achieve a set of guiding fiscal principles. The principles include generating surplus in revenue account to create capital assets, raise non-tax revenue giving due regard to cost-recovery and equity, prioritize capital expenditure, and pursue expenditure policies that would provide impetus for economic growth, poverty reduction, and improvement in human welfare. Judging from the fiscal management over the years, it is evident that there were many successes and there exist scope to improve in others. The fiscal policy of the state Government in the future needs to be calibrated keeping these principles in consideration.

Large amount of unspent amount helps State Government to generate revenue surplus. The money received at the end of financial year could not be put to use. Generating large revenue surplus and Low fiscal deficit implies availability of fiscal space. The state government needs to address the issues of how best to utilize the fiscal space and continue to adhere to fiscal deficit targets. As the government is allowed to increase the fiscal deficit beyond 3 percent of GSDP, it is crucial to remove the hindrances for better utilization of available resources.

Budget credibility analysis by comparing actual fiscal outcomes with the budget projections for the fiscal year 2018-19 shows some broad incongruities in the budget management process. While the state remained close to the aggregate revenue and aggregate spending projections set in the budget, at disaggregated level there were discrepancies. A credible budget assumes significance to improve service delivery and trust of the people on the governance system. The state needs to address the existing problems in the budget forecasting and implementing the programs at sectoral level. Best use of available public resources as per the agreed upon plan would reduce fiscal risks in the future years. In this context improving program management, building efficient information base, enhancing the capacity of the staff, and coordination with the central government are some of the essential features needed to establish robust public financial management process in the State.

The state government has not taken initiatives to improve performance orientation in the budgeting system by introducing outcome budget and medium term expenditure framework. The union government and most of the state governments in India prepare outcome budget and union Government prepare MTEF. State government has the flexibility to include these budget innovations in the fiscal rules legislation. What is important in this context is to build a consensus among stakeholders and own these in policy making. The independent review of fiscal policy and FRBM Act is an excellent institutional framework within which these reform measures can be assessed. The state government can widen the ambit of the independent review to include assessment of PFM reforms and their working along with compliance to FRBM Act provision. Although it may be difficult to establish direct linkage between reforms and achievements within annual budget horizon, the review can ascertain the changes within a medium term.