The Review of Compliance to Sikkim FRBM Act for the year 2016-17

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1. Introduction

The Government of Sikkim enacted Fiscal Responsibility and Budget Management Act (FRBM Act) in the fiscal year 2010-11. The fiscal year 2011-12 was the first year under the FRBM Act for the State[1]. Introduction of Fiscal Responsibility and Budget Management (FRBM) Act and formulation of a medium term fiscal plan (MTFP) in the state was aimed at designing and implementing a rule based fiscal management system to ensure fiscal stability and sustainability while ensuring efficient provision of public services. The State Government followed the recommendations of the 13th and 14th Finance Commissions and included the fiscal adjustment path recommended by the Commissions in the Act through amendments.

The Act provides quantitative targets with regard to deficit measures and debt level. The fiscal management principles enshrined in the Act call upon the State government to ensure transparency in setting and implementation of fiscal policy, stability, and predictability in policymaking process, improve the management of public finance and ensure intergenerational fairness, and improve efficiency in the design and implementation of fiscal policy related to management of assets and liabilities.

The Sikkim FRBM Act, in accordance with the recommendations of the Thirteenth Finance Commission (TFC),provides for independent review of the fiscal policy of the Government and the compliance to the provisions of this Act. 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. It helps in providing an unbiased assessment of Government's compliance with the provisions of the fiscal rules and reasons for any deviations. As the report is placed in the State legislature, it becomes part of the institutional

[1] Sikkim and West Bengal did not adopt FRBM Act as per the recommendations of the 12th Finance Commission in 2005-06.

accountability structure under the Indian constitution relating to public financial management. The National Institute of Public Finance and Policy (NIPFP), New Delhi, has been assigned the task of reviewing the compliance of the Act.

The specific objective of the review is to examine the concurrence of the State Government to the fiscal targets in terms of deficit and debt stock relative to the State GSDP. Limiting the fiscal deficit at the targeted level to ensure sustainable level of debt has remained at the core of the Act. The review also looks at the other budget management requirements enshrined in the Act like improving transparency and desirable fiscal management principles. 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.

Any independent review of State finances of Sikkim has to keep in consideration the limited resource base of the State and high dependence on central fund for provision of public services in a difficult hilly terrain. The flow of funds from Central Government also brings uncertainties, which affects budget implementation. The difficulties necessitate a prudent fiscal management. The review report includes the following;

- The report includes analysis of the macroeconomic outlook and recent trends of public finance including revenue generation, expenditure framework, and the debt burden to assess the fiscal stance of the State government.
- Assessment of the achievement of fiscal targets during 2016-17 as prescribed in the FRBM Act of the State.
- Evaluation of the fiscal trends achieved during the year 2016-17 as against the budget projections contained in the rolling fiscal targets worked out in the Medium Term Fiscal Policy (MTFP) presented along with the budget.
- Assessment of the desired fiscal management principles contained in the FRBM Act to achieve the fiscal targets and transparency measures.

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

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 2016-17 as compared to the budget provisions are analyzed in Section 5. Concluding observations are contained in Section 6.

2. Macroeconomic Outlook

In the context of fiscal policy and budgeting, the contribution of various sectors to the State economy and possible revenue implication is important for which examining the macroeconomic outlook of a State becomes relevant. The macroeconomic outlook in the sub-national fiscal policy may not reflect on the degree of price level stability, effects on trade and on the balance of payments.The trend of GSDP and per capita income of the States are relevant indicators in budgeting context. The growth of State income assumes significance for the budget management process as the Central Government fixes the borrowing limit as proportion to the GSDP, based on assumptions regarding the growth rate usually made by the Central Finance Commission.

After the change in methodology and base of the GDP series to 2011-12, the new GSDP series has become available since 2011-12 (Table 1). The growth with respect to both GSVA and GSDP has been reasonably good in Sikkim with a peak in 2015-16. As per the new series, the growth rate of GSDP at constant prices has increased from 6.07 percent in 2013-14 to 6.75 percent in 2016-17 and further to 6.85 percent in 2017-18, with peak growth rate of 9.93 in 2015-16. Sikkim recorded a growth rate of 11.02 percent for GSDP at current prices in 2016-17.In addition, the growth rate of GSVA was recorded at6.79 per cent at constant prices and 11.06 per cent at current prices (Table 1).The annual average growth rate of GSDP over the period 2012-13to 2016-17 at constant prices was 6.63 percent and 12.20 percent in current prices. The per capita GSDP of the state, which was Rs.181,842 in 2011-12, has increased substantially to Rs.309,435 in 2016-17 at current prices.

The composition of the State economy reveals that the industry sector accounts for about 62.95 percent of the State GSVA with manufacturing accounting for about 44.62 percent in 2016-17. This is a growing sector in Sikkim. The manufacturing of pharmaceutical products and commissioning of hydropower has contributed to this growth. The relative share of service sector, which was showing a growing trend in the State, has shown some decline in 2015-16 and 2016-17.The relative share of primary sector has been declining over the years and the share of mining and quarrying activities remained very small.

Table 1
Composition of GSVA (Constant Prices)

(Percent)

Item	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**
Primary	**8.35**	**8.50**	**8.39**	**7.97**	**7.60**	**7.80**	**7.74**
Agriculture, forestry and fishing	8.28	8.42	8.30	7.88	7.50	7.70	7.64
Mining and quarrying	0.07	0.08	0.09	0.09	0.09	0.10	0.11
Secondary	**62.83**	**60.13**	**59.87**	**61.20**	**62.30**	**62.95**	**63.79**
Manufacturing	39.54	38.96	40.06	41.56	43.53	44.62	45.72
Construction	6.16	5.70	5.71	5.28	5.28	4.97	4.80
Electricity, gas, water supply & other utility services	17.13	15.47	14.10	14.36	13.49	13.36	13.27
Tertiary	**28.82**	**31.37**	**31.73**	**30.83**	**30.10**	**29.25**	**28.47**
Transport, storage, communication & services related to broadcasting	2.60	3.05	3.22	3.18	3.14	3.02	2.99
Trade, repair, hotels and restaurants	2.89	4.60	5.23	4.77	4.50	4.36	4.15
Financial services	1.52	1.56	1.57	1.55	2.71	2.77	2.84
Real estate, ownership of dwelling & professional services	5.36	5.38	5.31	4.98	4.59	4.53	4.34
Public administration	6.80	7.21	7.19	7.09	6.56	6.22	5.99
Other services	9.66	9.57	9.22	9.26	8.61	8.34	8.16
TOTAL GSVA at basic prices	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
Growth Rate							
GSVA Constant Growth		1.74	5.15	8.08	9.09	6.79	6.85
GSDP Constant Growth		2.29	6.07	7.90	9.93	6.75	6.85
GSVA Current Growth		9.87	11.28	11.48	16.15	11.06	11.13
GSDP Current Growth		10.51	12.35	11.14	17.05	11.02	11.13

Source: CSO, GoI

3. Overview of the State Finances

After the recommendations of the Fourteenth Finance Commission (FFC), 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 State Governments were affected in different ways. The FFC recommended increasing the tax devolution to a high of 42 percent of all the Central taxes and refrained from giving specific-purpose grants. The 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.

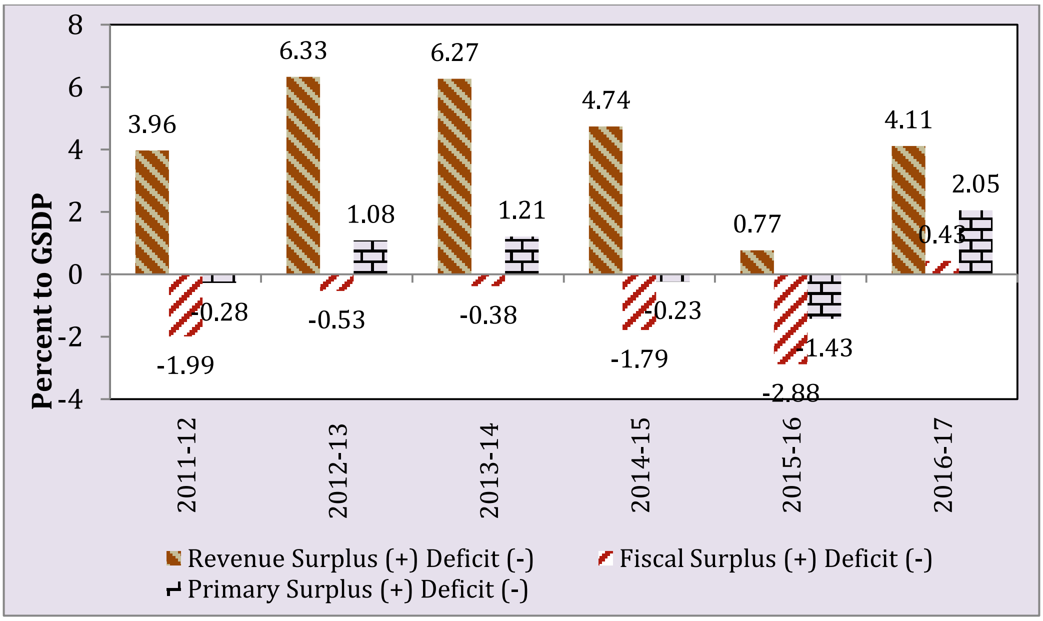
Following the recommendation of the FFC and expectations regarding reducing the net revenues of the Central Government, the plan grants to the States in 2015-16 were restructured. The Central Government subsumed Normal Central Assistance (NCA), Special Plan Assistance, Special Central Assistance in the FFC 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 sub-group of chief ministers in 2016-17.

The State of Sikkim had to address several challenges. The State witnessed perceptible changes in the fiscal management in 2015-16, due to the changes in the central transfer system. While the State received higher tax devolution, the loss of plan grants created difficulties for the ongoing projects. As the State depends heavily on the central transfers, it became challenging to adjust to the loss of plan grants. 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 FFC transfer was also designed based on a very unrealistic own tax projection for the State. The State Government has faced resource constraints to manage the rising spending demands, particularly on ongoing infrastructure projects.

After the enactment of the FRBM Act, the State of Sikkim consistently achieved revenue surplus and contained the fiscal deficit within the limits of the Act. In 2016-17, the revenue surplus was increased to 4.11 percent of GSDP, whereas the budget estimate of revenue surplus was only 1.30 percent. This level of revenue surplus was far ahead as compared to the previous years. In 2016-17, Sikkim achieved fiscal surplus 0.43 percent to GSDP and a primary surplus of 2.05 percent to GSDP(Figure 1).

High revenue surplus and consequent achievement of fiscal surplus should not be overlooked, as the FRBM target of fiscal deficit was 3 percent of GSDP. As per the recommendations of the FFC, the State was entitled to take the fiscal deficit to 3.25 percent due to its prudent record of fiscal management. Onetime grants of Rs.500 crores by the Central Government, which was released at the far end of the fiscal year, could not be utilized after booking it under revenue account. This amount increased the revenue surplus and resulted in fiscal surplus. If we remove this amount from revenue receipts, the revenue surplus comes down to 1.61 and fiscal deficit becomes 2.07. This remains within the FRBM target.

Figure 1
Fiscal Outcomes in Sikkim



The capital outlay in Sikkim consistently remained large as percentage to the GSDP. This did not affect the fiscal deficit adversely due to having sizeable revenue surplus. Large revenue surplus in the State was due to high dependence on central transfers, all of which are usually booked under revenue receipts. Many of the central grants are tied grants, proceeds from which are utilized for capital expenditure as per the design of the scheme. Thus the capital expenditure as percentage to GSDP also remains high in the State. The unutilized central funds do not lapse and add to the revenue surplus in the year they were received. The emergence of fiscal surplus in 2016-17 reflects the situation, where a onetime grant from the Centre improved the outcome indicator as the amount could not be put to use.

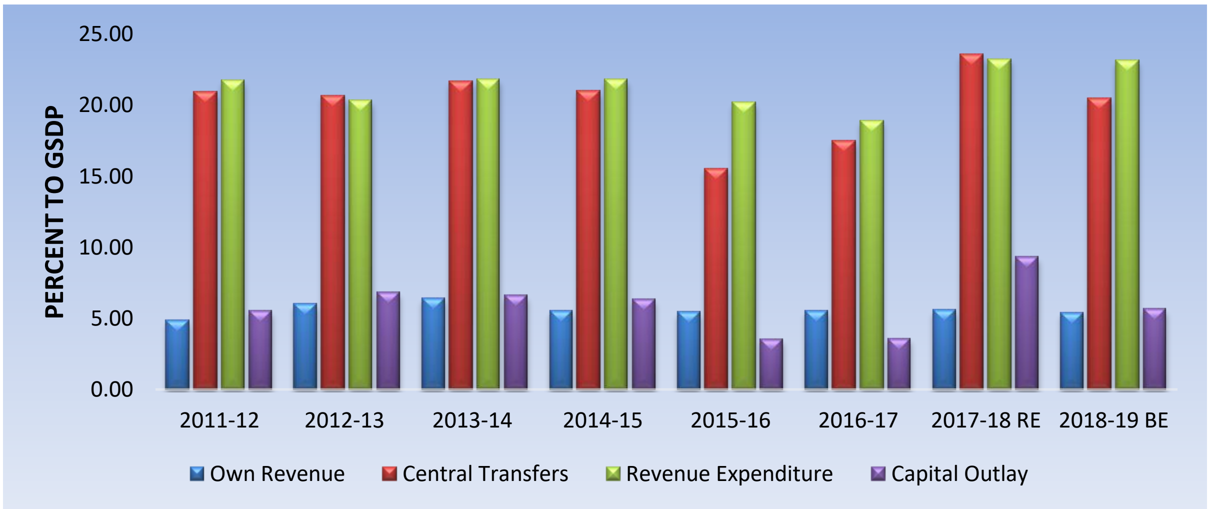
The fiscal outcome for the year 2016-17 shows that the State government has some fiscal space available to take appropriate decisions. The availability of fiscal space should not lead laxity in fiscal management. What is more important for the State is to improve efficiency to be able to utilize the unspent balances. The State Government needs to coordinate with the Central Government for better transfer mechanism and remove the hurdles in the implementation of programs. During 2016-17, the unspent balance was Rs.564.86 crores. The major component of it was the onetime grant received by the State Government in March 2017.

The capital outlay, which remained reasonably high in the State as percentage to the GSDP, came down to3.66per cent in 2015-16, as against 6.53 per cent in the previous year. It has marginally increased in 2016-17. In terms of nominal numbers, the capital outlay was Rs.633.98 crore in 2015-16, which has increased to Rs.720 crores in 2016-17. The size of the capital outlay in the State usually is related to the provisions made in the CSS and other Central programs through NEC and NLCPR schemes. The reduction in plan grants and committed spending on revenue account affected the capital outlay. 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.

The trends in own revenue receipts, central transfers, revenue expenditures and capital outlay (on general, social and economic services together) have been given in Figure 2. The aggregate revenue receipts show an increase from 20.98 in 2015-16 to 23.03 percent in 2016-17 relative to the GSDP. While Sikkim witnessed large fall in revenue receipts relative to the GSDP after the recommendations of the FFC, there has been a definite turnaround in revenue receipts. The revenue expenditure declined from the level of 20.21 percent in 2015-16 to 18.92 percent in 2016-17. Thus, rise in aggregate revenue receipts accompanied by lower revenue expenditure, resulted in reasonably high revenue surplus, which helped in generating fiscal surplus.

The increase in the own revenue receipts of the State, taking both tax and non-tax receipts, was miniscule, as they remained at 5.4 and 5.5 percent in 2015-16 and 2016-17 respectively. It was the surge in Central transfers, which helped in achieving a higher aggregate revenue receipts. The Central transfer including the share in Central taxes and grants showed almost 2-percentage point rise from 15.55 percent to 17.51 percent. Given this resource position, the State Government seems to have been in a favorable position in 2016-17 as far as the fiscal targets are concerned. The capital outlay shows a minor increase from 3.52 percent in 2015-16 to 3.60 percent in 2016-17. Given the fiscal space available to the State Government, capital outlay could have been augmented further.

Figure 2
Broad Fiscal trends in Sikkim



As discussed, the own revenue of the State has not seen a rise in 2016-17 as percentage to GSDP, if we ignore the 0.01 percent rise. The own tax revenue of the State relative to the GSDP, during 2016-17 was at 3.26 percent, which was a marginal rise from 3.14 percent received in the previous year. The peak in the recent years was in 2013-14, when the own tax revenue was 3.79 percent to GSDP (Table 2). The own non-tax revenue reported adecline in 2016-17 as compared to 2015-16 as percentage to the GSDP. The non-tax revenue in Sikkim contains large contributions from lottery operations and sale of electricity as the State Government manages the power sector through a department. The income from lottery operations has declined due to adverse market conditions and unfavorable policies by other State Governments.

Table 2
Revenue Receipts in Sikkim

Percent of GSDP

Heads	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Revenues	25.72	26.65	28.09	26.53	20.98	23.03
Own Tax Revenues	2.63	3.53	3.79	3.42	3.14	3.26
Sales Tax	1.11	1.84	2.07	1.83	1.81	1.82
State Excise Duties	0.86	0.90	0.87	0.85	0.79	0.78
Motor Vehicle Tax	0.15	0.13	0.13	0.13	0.12	0.12
Stamp Duty and Registration Fees	0.07	0.04	0.05	0.04	0.05	0.06
Other Taxes	0.44	0.61	0.67	0.57	0.38	0.47
Own Non-Tax Revenues	2.19	2.45	2.61	2.10	2.29	2.26
Central Transfers	20.91	20.67	21.69	21.01	15.55	17.51
Tax Devolution	5.48	5.66	5.50	5.25	10.37	10.34
Grants	15.43	15.01	16.19	15.75	5.18	7.18

Source (Basic Data): Finance Accounts, State Budget 2018-19, and CSO

The individual tax collection as percentage to GSDP contained in Table 2 shows that none of the state taxes increased in the fiscal year 2016-17. Mostly the taxes remained at the same level as achieved in the previous year. The sales tax, which is the most important tax of the State, was increased by 0.01 percentage point over the previous year. Sales tax collection has been declining as percentage to the GSDP since 2013-14, when it was 2.07 percent. The State Government expected that GST would improve the own revenue of the State after 2017-18, when it would set in.

The State taxes have not grown commensurate with the growing economy over the years for which the buoyancy coefficients remain low (Table 3).The sectors, electricity, and manufacturing, growing rapidly and contributing to growth process have not contributed to tax revenues. Although the value of the electricity generated by the newly commissioned hydroelectric units contributes to the growth numbers, it does not enlarge the tax base. Similarly, the improved production by the pharmaceuticals in the manufacturing sector, though adds to the growth, most of it goes out of the State in the form of consignments attracting no VAT. However, the expanded economic activity due to the construction and higher employment in these sectors, and rise in business should have resulted in higher tax collection beyond the normal growth. It is necessary for the State to look into these issues to improve the tax mobilization.

Table 3
Buoyancy of Taxes: 2004-05 to 2016-17

Own Tax Revenues	0.637
Sales Tax + SGST	0.762
State Excise Duties	0.663
Motor Vehicle Tax	0.761
Stamp Duty and Registration Fees	0.637
Other Taxes	1.212

Source (Basic Data): Finance Accounts and State Budget 2018-19

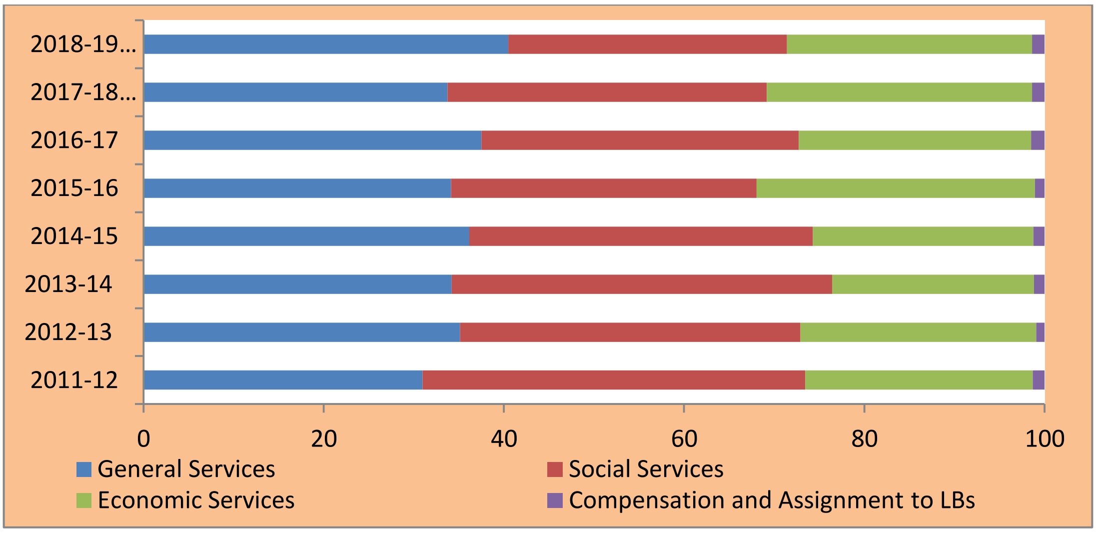
The central transfer to the State is large, which constitutes little more than three-fourths of the total State revenues. High dependency of the State on central funds implies severe distortions in the resource allocation in case there is any deviation from the budget estimates. The central transfer has increased from Rs. 2334 crore in 2011-12 to Rs. 3506.09 crore in 2016 - 17 in nominal terms. However, as percentage of GSDP, the Central transfer has decreased from about 20.9 percent to 17.51 percent during this period. In absolute terms, the amount of central transfers was reduced in 2015-16 as compared to the previous year due to closure of options of the plan transfers after the recommendations of the FFC. However, this has been reversed in 2016-17, as in absolute terms the State received higher transfers as compared to the year 2015-16.

In 2015-16, following the 14th Finance Commission's recommendations the share in central taxes has more than doubled as compared to 2014-15, but grants from Centre has declined significantly in 2015-16.The share of grants from Centre to GSDP in 2015-16 came down to 5.18 percent, compared to 15.75 percent in 2014-15 and 16.19 percent in 2013-14. Also, 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. In 2016-17, the tax devolution dipped marginally to 10.34 percent of GSDP from 10.37 percent in the previous year. At the same time, there was some improvement in grants component due to the one-time grants received by the State. Overall, in 2016-17, there has been a higher flow of central transfers as compared to the previous year. The transfer dependency of the State is evident, as the relative share of own revenue declined from 25.89 percent in 2015-16 to 23.95 percent in 2016-17.

The annual average growth rate of revenue expenditure in Sikkim, during 2011-12 to 2016-17, was 13.7 percent. The revenue expenditure grew at the rate of only 3.9 percent over the previous year as compared to 11 percent and 8.6 percent in 2014-15 and 2015-16 respectively. This implies the Government has kept control over the growth rate of revenue expenditure, which helped to achieve higher revenue surplus. As percentage to the GSDP, the revenue expenditure declined by almost 2 percentage points from 20.21 in 2015-16 to 18.92 percent 2016-17 relative to the GSDP.

Resource allocation to different sectors in the revenue expenditure is an important issue that needs to be discussed as the public expenditure is dominated by the revenue expenditure. The composition of revenue expenditure, given in Figure 3, shows that the relative shares of social services dipped from 42.46 percent in 2011-12 to 35.24 percent in 2016-17. However, there has been an increase in the share between 2015-16 and 2016-17.While, the directly productive economic service continued to show an increasing trend in the State, its share in revenue expenditure declined to 25.78 percent in 2016-17 as against 30.89 percent in the previous year. The share of general service seems to have been growing in the State, as its share increased from 30.97 percent in 2011-12 to 37.51 percent 2016-17. 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.

Figure 3
Composition of Revenue Expenditure in Sikkim



Composition of revenue expenditures can also be examined from the point of expenditures' view that is contractual, committed, and pre-determined in nature. 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 51.32 percent in 2011-12 to 56.19 percent in 2016-17 (Table 4). While, its share showed some decline in 2013-14, due to rise in interest payment and pension outgo, the share of committed spending started rising.

Table 4
Committed Revenue Expenditure in Total Revenue Expenditure

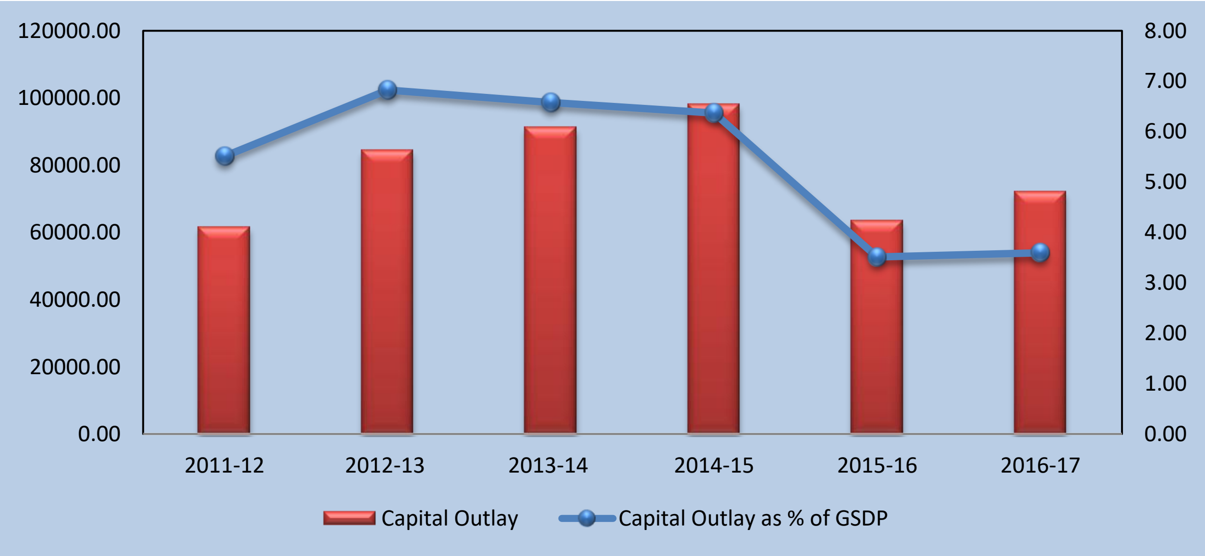
(Percent)

Committed Expenditure	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Salaries and Wages	7.85	7.93	7.31	7.14	7.19	8.56
Interest Payments	7.15	8.98	8.62	9.92	11.04	11.79
Pensions	36.31	34.89	32.10	32.59	33.92	35.84
Total	51.32	51.80	48.03	49.65	52.15	56.19

Source (Basic Data): Finance Accounts and State Budget 2018-19

The capital outlay on various services (general, social, and economic) in the State has remained reasonably high. In nominal terms, it increased from Rs.615.76 crores in 2011-12 to Rs. 980.71 crores in 2014-15. However, in 2015-16, the capital outlay declined in nominal terms to Rs.633.98 crores. As percentage to GSDP, the capital outlay declined to 3.74 percent in 2015-16 from 6.37 percent in 2014-15 (net lending not included here).The decline in Central grants after the recommendations of the FFC played an important role in the resource allocation relating to capital investment. This implies the residual nature of capital outlay in the system.

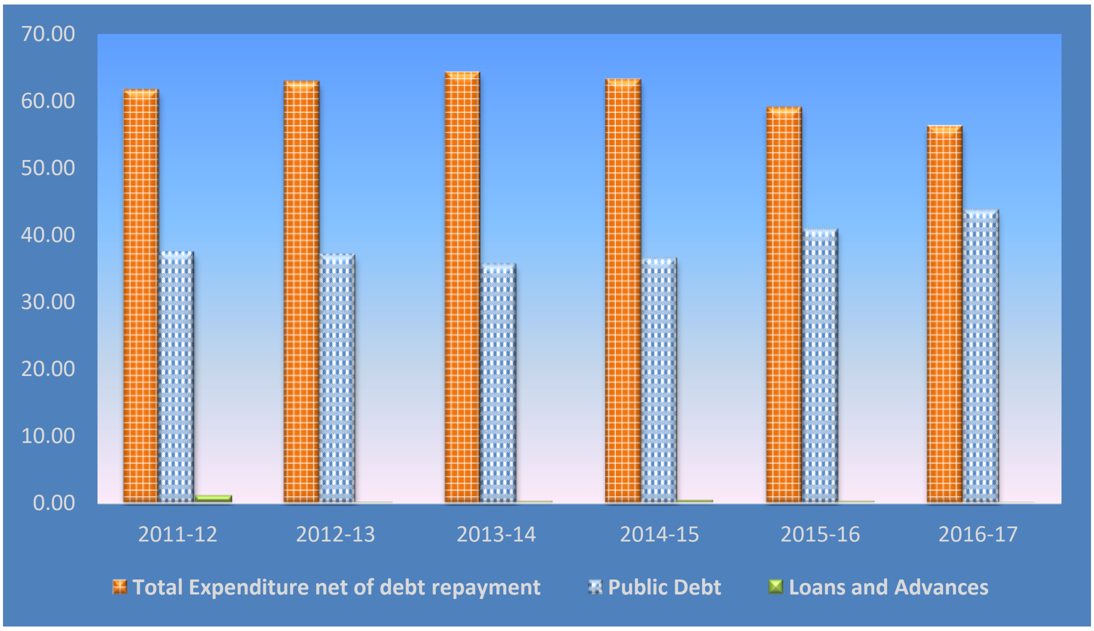
Figure 4
Capital outlay in Sikkim



Capital outlay, however, increased to Rs.720.29 crores in 2016-17 and as percentage to the GSDP there was an improvement to 3.60 percent as compared to 3.52 in the previous year. 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.

The spending priorities of the Government and the emerging focus areas could be ascertained by examining the aggregate sector expenditure, taking both the capital and revenue expenditure. The composition of aggregate expenditure shows that on an average the State has been spending about 60 percent of total expenditure on various sectors and administrative services and rest 40 percent of debt repayment. The loans and advances given by the State has remained miniscule (Figure 5). The relative share of expenditure net of debt repayment and loans has actually shrunk over the years from 61.56 percent in 2011-12 to 56.24 percent in 2016-17. The share of debt repayment has increased from 37.44 percent to 43.74 percent during this period. While the State Government managed to generate revenue surplus, there has been a rise in fiscal deficit over the years. The debt burden defined as debt –GSDP ratio has also increased in the State, which resulted in rise in debt repayment vis-à-vis development spending.

Figure 5
Composition of Total Expenditure



The composition of total expenditure (net of debt repayment, loans, and advances) in the State indicates that interest payment, pension, and administrative services have become growing source of Government spending (Table 5). These three spending heads taken together constituted 27 percent of total expenditure in 2016-17. In social services, education, health, water supply and sanitation, and welfare and nutrition remained large spending departments. 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 as the share of economic services grew in the resource allocation.

Table 5
Composition of Total Expenditure (Net of Debt Repayment)

Percent

Heads	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Interest Payment	6.27	5.94	5.62	5.52	6.13	7.20
Pension	5.71	6.72	6.62	7.68	9.40	9.90
Administrative Services	9.20	9.87	10.07	8.84	9.59	10.01
General Services (Rev. Exp.)	3.53	3.77	3.98	5.95	3.95	4.40
Compensation to Local Bodies	1.03	0.68	0.90	0.96	0.91	1.23
Capital Outlay on Police	0.19	0.21	0.38	0.47	0.12	0.15
Capital Outlay on Public works	0.64	2.28	3.93	2.06	1.38	1.43
Education Sports Art and culture	18.14	17.63	17.67	17.53	18.49	18.08
Medical and Public Health	6.95	6.78	6.05	5.64	5.68	5.86
Water Supply Sanitation Housing and Urban Development	6.24	8.12	8.73	8.75	4.89	6.28
Welfare of Scheduled Castes Scheduled Tribes and other Backward Classes	0.67	0.62	0.71	0.66	0.81	0.79
Social Welfare and Nutrition	9.62	2.31	4.21	2.21	2.86	2.32
Other Social Services (Total Exp.)	1.36	1.52	1.81	0.94	0.85	1.68
Agriculture and Allied Services	7.90	6.64	6.30	6.74	7.38	6.15
Rural Development	3.83	3.86	2.86	4.21	3.40	5.46
Irrigation and Flood Control	1.41	1.86	1.50	0.52	0.82	0.68
Energy	4.45	4.51	3.55	3.91	5.94	6.02
Industry and Minerals	1.60	0.88	0.86	1.08	0.78	0.74
Transport	7.88	12.63	10.75	8.82	7.83	8.85
Science and Environment	0.09	0.06	0.06	0.07	-0.31	0.10
General Economic Services	2.68	2.56	2.32	6.90	8.51	1.98
Other Economic Services	0.60	0.55	1.12	0.55	0.59	0.69

Source (Basic Data): Finance Accounts and State Budget 2018-19

The indebtedness of the Government of Sikkim, which was showing some decline since 2011-12, has increased in 2016-17 (Table 6).Taking all types of liabilities, the total debt stock decreased from 22.86 percent of GSDP in 2011-12 to 21.97 percent in 2015-16, and increased to 23.33 percent in 2016-17. Increase in internal debt of the Government was one of the factors for this rise. The FRBM Act of the state stipulated specific debt GSDP ratios until 2014-15 as per the recommendations of the 13th Finance Commission. The 14th FC, while not specifying debt-GSDP targets in its fiscal consolidation recommendations, held that the States could increase their fiscal deficit limit by a total of 0.5 percent based on certain conditions relating prudency. The debt GSDP ratio of 25 percent was one of the conditions. The aggregate level of indebtedness in 2016-17 indicates that the State Government complied with the TFC recommendations and its own FRBM targets.

Table 6
Liabilities of the Government of Sikkim

(Percent of GSDP)

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Public Debt	**16.59**	**16.03**	**15.77**	**16.29**	**16.47**	**17.51**
Internal Debt	15.18	14.82	14.85	15.51	15.83	16.96
Loans from the Central Govt.	1.41	1.21	0.92	0.79	0.63	0.55
Other Liabilities	**6.27**	**6.32**	**6.37**	**6.30**	**5.50**	**5.82**
Small savings, Provident Fund	5.18	5.06	4.95	4.61	4.15	4.15
Reserve Fund	0.17	0.11	0.37	0.80	0.47	0.47
Deposits	0.93	1.16	1.05	0.90	0.89	1.20
Total Public Debt & Other Liabilities	**22.86**	**22.35**	**22.14**	**22.60**	**21.97**	**23.33**

Source (Basic Data): Finance Accounts, Relevant Years.

4. Compliance to the FRBM Act Targets

4.1 FRBM Targets and Fiscal Achievements of the State Government

The FRBM Act of the State, with amendments in 2011, stipulates the fiscal targets relating to deficit and debt burden and contains the broad fiscal management process. The fiscal consolidation process in Sikkim is envisioned through maintaining balance in revenue account and planned reduction of fiscal deficit and prudent debt management. The major provisions of the Sikkim FRBM Act are as follows;

- Present a Medium Term Fiscal Plan (MTFP)
- 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 budget documents presented in the State legislature for the year 2016-17 contained medium term fiscal plan (MTFP) for three years as stipulated by the FRBM Act. The Act mandates the State Government to present a half-yearly report card on progress to achieve the FRBM targets as part of the 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.

The objective of MTFP is to provide the fiscal plan of the Government to raise the revenues, resource allocation priorities, and borrowing plan for the ensuing year in a transparent way. The Government of Sikkim presented the MTFP statement 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 the State economy, the strategic priorities for revenues and expenditures, and the conformity of the fiscal outlook of the Government with the fiscal principles enshrined in the Act. The first year of the MTFP projections is the budget estimates for the year 2016-17.

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 FFC, if any, to revise its debt-GSDP targets. The FFC, 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 FFC, 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. According to the debt-GSDP ratio for Sikkim becomes 20.63 percent in 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 to assess the State's compliance.

As discussed earlier, the fiscal year 2016-17 witnessed receipt of a onetime grant of Rs.500 crores that inflated the revenue receipts higher than that of the previous year. As there was no spending to that extent, the revenue surplus became high and there emerged a fiscal surplus. Sikkim being small State, even an amount of Rs.500 crores changes the ratios dramatically. As the grant has been accounted for, the resultant fiscal outcomes became the record of fiscal achievements for the State. Thus, the revenue receipts for the year 2016-17, was higher than the previous year driven by Central transfers, which resulted in higher revenue surplus and a fiscal surplus.

The aggregate revenue receipts,as percentage to the GSDP in 2016-17 was 23.03 percent, as compared to 20.98 percent in 2015-16. The higher revenue receipt, however, could not enhance either revenue or capital spending. The revenue expenditure at 18.92 percent in 2016-17 was lower by 1.3 percentage points as compared to the previous year. The capital outlays increase was merely 0.08-percentage point. There was revenue surplus of 4.11 percent and fiscal surplus of 0.43 percent in 2016-17. If the onetime grant is removed from receipt side, the State ends up with a lower aggregate revenue receipts, and fiscal deficit of 2.07. Thus, State has remained within the FRBM Act fiscal targets.

The State could have expanded its spending program in view of its eligibility to increase the fiscal deficit target, by another 0.25 percentage point beyond the 3 percent fiscal target based on its record of fiscal prudence. This was recommended by the FFC.

The fiscal targets specified in the FRBM Act and the outcomes for the year 2016-17are shown in Table 7. 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 4.11 and incurred a fiscal surplus of 0.43 percent of GSDP. In nominal terms, the amount of revenue surplus increased to Rs. 822.22 crore in 2016 -17 from Rs. 139.71 crores in 2015-16 and Rs.868.48 crores in 2013-14.Fiscal surplus indicates that the State Government has flexibility to expand its expenditure program.

Outstanding debt burden, an outcome of the fiscal management of the State, at 23.33 percent relative to the GSDP remained higher than the target of 20.09 percent as amendedin 2016. As discussed, we will assess the compliance of the State against a target of 25 percent of the GSDP. The other fiscal target, outstanding guarantees, remained within the specified limit of Sikkim Ceiling on Government Guarantee Act 2000. Although, the fiscal outcomes for the year 2016-17 indicates that the State complied with the fiscal targets stipulated in the FRBM Act. The emergence of fiscal surplus shows availability of fiscal space to the State Government.

Table 7
FRBM Act Targets and Fiscal Achievements during 2016-17

Percent

	Targets	Achievements
Revenue Deficit % of GSDP	0	-4.11
Fiscal Deficit % of GSDP	3.00	-0.43
Total Debt Stock % of GSDP	25	23.33
Outstanding Guarantees	Restricted to the limit under the Sikkim Ceiling on Government Guarantees Act, 2000	

Note: Negative sign for deficit figures indicate surplus

4.2 Fiscal Management Principles

The set of guiding fiscal management principles to maintain prudent debt level, manage guarantees, ensure borrowings to be used for productive purposes, and pursue revenue expenditure policies to provide impetus to economic growth are unique features of subnational fiscal rules in India. The Act does not fix any targets or gives any indicators to assess these principles like the mandatory fiscal targets. The objective of giving a set of fiscal management principles is to help the State Government to achieve the statutory targets. In many ways these are common to the economic policy making of the 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 of 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.

Debt Management

The debt management principles of the FRBM Act require the State Government to maintain debt at a prudent level, manage guarantees and other contingent liabilities prudently, and use borrowed funds for productive purposes and create capital assets. The borrowed resources should not be used to finance current expenditure. Indeed, the debt management policy of any Government aims at meeting the financing needs at the lowest possible long-term borrowing costs and to keep the total debt within sustainable levels. The debt stock as percentage of GSDP has increased to 23.33 percent in 2016-17satisfies the test of prudency as suggested by the 14th FC.

The Central Government fixes the limit for State Government borrowing. This limit acts as an external control over the fiscal deficit. Since the recommendations of the 13th FC, 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. Despite having a fiscal surplus in 2016-17, the debt-GSDP ratio increased as compared to the previous year due to the circumstances explained earlier relating to higher revenue surplus.

Borrowing and repayment for the year 2016-17 shown in Table 8 reveals that actual public debt that includes internal debt (market and institutional borrowing) and loans from Central Government was less than the budget estimates. As the revenue surplus was achieved due to last month addition to the grants and the GSDP growth was less than that of the last year, the debt-GSDP ratio increased in 2016-17.

Table 8
Borrowings and Repayments: 2016-17

(Rs. Lakh)

	Budget Estimates	Actual	Difference
Public Debt Receipts			
Internal Debt	84022.96	77661.09	-6361.87
Loans Advances from Central Government	7.40	672.91	665.51
Public Debt	**84030.36**	**78334.00**	**-5696.36**
Small Savings and Provident Fund	**34525.59**	**30468.30**	**-4057.29**
Total	**118555.95**	**108802.30**	**-9753.65**
Debt Repayments			
Internal Debt	23712.79	23605.29	-107.50
Loans Advances from Central Government	1011.01	1020.83	9.82
Public Debt	**24723.80**	**24626.12**	**-97.68**
Small Savings and Provident Fund	**33540.00**	**22138.67**	**-11401.33**
Total	**58263.80**	**46764.79**	**-11499.01**

Source: Finance Accounts and Budget Document for the year 2016-17 & 2018-19

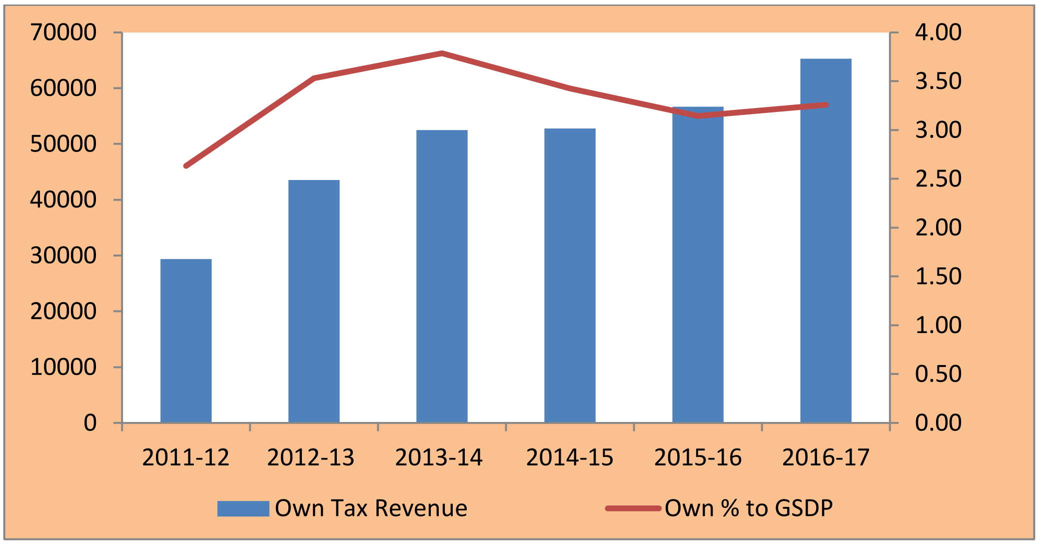
Using borrowed funds exclusively for creating capital assets is one of the crucial features of the FRBM Act. Given the high revenue surplus, this target has been satisfied. The State Government needs to borrow to finance the deficit arising due to capital outlay and existence of any deficit in the revenue account. The capital outlay in Sikkim has remained reasonably high due to tied nature of the plan grants coming to the State. A revenue surplus has provided fiscal space to the Government to increase the capital outlay and keep the debt burden sustainable. Capital outlay remained reasonably high all these years and in 2016-17, there was a marginal rise. It decelerated in 2015-16 due to pressure on resources available to the Government. The State Government needs to expand its fiscal space to accommodate high investments.

Tax Policy and Administration

Reduction of discretion and a simplification of the tax system is a major fiscal management principle advocated in the FRBM Act. The FRBM Act requires the State Government to maintain integrity of the tax system by minimizing special incentives, concessions and exemptions. It also emphasizes on pursuing the tax policy with due regard to economic efficiency and compliance cost. The own -tax revenue, which showed an increasing trend as percentage to the GSDP since 2011-12, declined in 2015-16, and again increased in 2016-17 (Figure 6). 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. The VAT regime, introduced in 2005, has stabilized in terms of rate and base structure in the State. In fact, impending introduction of GST continued to be major pre-occupation of the tax administration.

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

Figure 6
Own Tax Revenue as Percentage of GSDP



In the case of non-tax revenues, the FRBM Act calls upon the Government to give attention to cost recovery and equity. The non-tax revenue of the State contributes significantly to the own revenue of the State. As percentage of GSDP, it has not increased in 2016-17 over the previous year. Its relative share in total own revenue of the State has declined from 42.15 to 40.90 percent. 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. In the year 2016-17, interest receipts, power sector, transport and forestry sector provided higher income to the State. 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.

Expenditure Policy and Institutional Measures to Improve Quality of Expenditure

The FRBM Act underlines on providing impetus to economic growth, poverty reduction, and improvement in human development in the fiscal policy of the State Government, particularly through the spending decisions. 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.

The emerging priority sectors in terms of rising expenditure share have been discussed in an earlier section. 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 capital outlay, which was traditionally high in Sikkim, has shown a downward trend in recent years. 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.3,40,703 in 2016-17 at current prices. The major socio-economic indicators for the State show commendable improvement. The poverty ratio has declined to 8.19 per cent as compared to all India average of 21.92 per cent in 2011-12. The literacy rate at 81.40 per cent in 2011-12 is significant achievement. The IMR has gone down to 24 per 1000 in 2011 as compared to the all India average of 44.

The Act requires the Government to formulate a realistic budget with due regard to the general economic outlook and revenue prospects and minimize deviations during the course of the year. The detailed account of comparison of budget estimates and actual outturn relating to revenue and expenditure has been given in latter sections. The budget management practice in the State shows several discrepancies. The State is heavily dependent on central transfers that includes share in central taxes and central grants. The State, in addition to centrally sponsored schemes, also receives funding from agencies like DONER and NEC for infrastructure projects. The State budget suffers during the implementation phase due to lack of predictability of these funds. Many a times the expenditures planned in the budget go awry due to non-receipts of components of these funds and late receipt of grants towards fag end of the financial year. It is important for the State Government to step up coordination with the Central agencies to improve the fund-flow to planned projects and programs.

Fiscal transparency measures enunciated in the 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.

5. Budget Credibility: Projections and Outturns

The fiscal management principles, enshrined in the FRBM Act, require that the budget should be formulated in a realistic manner to minimize the deviations from the projections. A realistic budget minimizing deviation from budget estimates implies the capacity of the Government to deliver the public services as promised in budget. The ability to raise the projected revenue and implement the budgeted expenditure becomes crucial in this context.

The importance of this feature lies in avoiding bias while forecasting the revenues and allocating resources to various programs.

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. State Governments like Sikkim, which depend considerably on the central transfers, realizing the estimated resource envelope depend upon the actual flow of grants.

In this section, a comparison between budget estimates and fiscal outturns for the year 2016-17 is provided in Table 9to shows the fiscal variables as projected in the budget and the achievements for the year.

While the aggregate revenue receipt in 2016-17 was higher than that of the previous year, it fell short of the budget estimates (Table 9). This deviation affected realization of both the revenue and capital expenditure as they were voted in the legislature. The revenue receipts fell short of the budget estimates by Rs.275 crores. The deviation was equivalent to 5.63 percent when the actual difference was compared to the budget estimates. The revenue and capital expenditures were low by Rs.836.71 crores and Rs.127.54 crores respectively. This translates to 18.09 percent decline for the revenue expenditure and 14.93 percent for capital outlay as compared to the budget estimates.

The State Government performed well in meeting the budget targets relating to internal revenue. The actual non-tax revenue exceeded from the budget estimates by Rs.89.38 crores, which works out to be 24.67 percent of the budget estimates. The own tax revenue also exceeded the budget estimates by Rs.6.5 crores, which works out to be only 1.01percent of the budget estimates. Thus, while the performance in own revenue receipt in 2016-17 was good, there was a deviation in central transfers by 9.57 percent. The difference in budget and actual receipt of the tax devolution was very small. The grants component deviated from the budget estimates by 19.37 percent. The preparation of budget based on anticipated central component for various schemes did not materialize entirely.

Although the State Government managed to meet the own revenue target in 2016-17, the actual expenditure, both revenue and capital fell short of their respective budget targets. The compression of the revenue expenditure resulted in surplus in the revenue account. While, the Government planned to generate revenue surplus of 1.30 percent of GSDP, the actual surplus was much higher at 4.11 percent of GSDP. While budget projected a fiscal deficit of 3 percent of GSDP, in reality it ended up with a 0.43 percent fiscal surplus. The debt stock exceeded the budget estimates by Rs.34.35 crores, which is 0.74 percent of budget estimates.

Table 9
Budget Estimates and Outturns for the year 2016-17

(Percent to GSDP)

	2015-16	**2016-17**	**2016-17 (BE)**	**Difference (Actual to BE)**	**Difference in % to BE**
Revenues	**378429**	**461030**	**488530**	**-27500**	**-5.63**
Own Tax Revenues	**56682**	**65256**	**64606**	**650**	**1.01**
Own Non-Tax Revenues	**41299**	**45164**	**36226**	**8938**	**24.67**
Central Transfers	**280448**	**350610**	**387698**	**-37088**	**-9.57**
Tax Devolution	187028	206919	209495	-2576	-1.23
Grants	93420	143691	178203	-34512	-19.37
Revenue Expenditure	**364458**	**378808**	**462479**	**-83671**	**-18.09**
General Services	124380	142077	149004	-6927	-4.65
Social Services	123619	133507	155020	-21513	-13.88
Economic Services	112579	97660	152590	-54930	-36.00
Compensation and Assignment to LBs	3880	5563	5864	-301	-5.13
Capital Expenditure	**65964**	**73592**	**86345**	**-12754**	**-14.77**
Capital Outlay	63398	72029	84668	-12639	-14.93
Net Lending	2565	1563	1677	-114	-6.82
Revenue Deficit	**-13971**	**-82222**	**-26051**		
Fiscal Deficit	**51993**	**-8630**	**60295**		
Primary Deficit	**25786**	**-41070**	**27777**		
Outstanding Debt	**396112**	**467119**	**463684**		

Source: Basic data – Finance Accounts and Budget Document for the relevant years, GoS GSDP data used are of 2011-12 series

The comparison of the budget outcomes and estimates reveal several issues pertaining to expenditure management and budget projections. While the State Government managed to improve upon its own revenue receipts, projected in the budget, the decline in central transfers, particularly the grants, pulled down the aggregate resources by about 5.63 percent as compared to the budget estimates. The fiscal year 2016-17was the second year of a changed fiscal transfer system in which tax devolution was raised and the plan grants were considerably curtailed. The tax devolution being a formulaic transfer, the difference in budget estimates and actual receipts was less.

The difference in actual and budget estimates in revenue and capital outlay was not intentional to generate higher surplus and low fiscal deficit. While the non-receipt of grants created problems for project implementation, the process of execution, release of State share, and structural hurdles also affected the actual spending. The deviation in general services in revenue expenditure was low as it contains spending heads like interest payment, pension, and other administrative services. The deviation in social and economic services was high at 13.88 and 36 percent respectively.

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. Although part of the unspent amount is included in the budget of the next year, the time-overrun results in cost overrun requiring larger amount of resources for completion of the projects.

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.

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 in the year 2016-17 is detailed in Table 10 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.

The funds received during the last quarter of the fiscal year could not be put to use and large part of it remains as unspent amount. In 2016-17, while the unspent amount remains high at Rs.564.86 crores, the element of delayed receipt in it has come down to Rs.196.92 crores (Table 11). The large part of unspent amount from the central grants was spread over all through the year due to variety of reasons. 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.

The State Government also needs to be realistic in its anticipation of central program funds and prepare the budget accordingly. Otherwise, it will be construed as a biased projection of revenues to accommodate ever-increasing budget size. 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.

Table 10
Non-receipt of Central Funds

Head	Unreleased grants	Amount (crore)
Health (4210)	North Eastern Council	5.59
Water supply sanitation (4215)	Non-lapsable central pool of resources (NLCPR)	38
	North Eastern Council	13.53
	Centrally Sponsored Schemes	39.53
Urban Development and housing (4217)	National Bank for Agriculture and Rural Development (NABARD)	3.08
	Non-lapsable central pool of resources (NLCPR)	5.45
Social Justice (2235)	Tribal sub plan (state schemes)	5.08
	Scheduled caste sub plan (state scheme)	1.80
	OBC development welfare scheme(CSS)	2.74
	Scheme of development for SC (CSS)	2.54
	ST student Scheme (CSS)	11.73
Roads (5054)	Central Road Fund(CSS)	6.12
	Upgradation Road (CSS)	5.05
	Road Construction (CSS)	4.06
	National Bank for Agriculture and Rural Development (NABARD)	16.10
	North Eastern Council	13.61
	Non-lapsable central pool of resources (NLCPR)	40.24
	Externally Aided Project	24.13
Rural Management development and department (5054)	National Bank for Agriculture and Rural Development (NABARD)	2.24
	North Eastern Council	5.00
	PMGSY (state scheme)	17.00
	PMGSY (CSS)	138.16
Agriculture and Horticulture Crop Husbandry (2401)	Horticulture Mission (CSS)	33.25
	National Bamboo Mission	4.45
	National Mission for minor irrigation	3.87
	North Eastern Council	2.10
Agriculture and Horticulture Grants (2401)	RKVY	18.00
	PMKSY	7.00
	PKVY	11.00
Planning	EAP- Forest/tourism/ Road and Bridges	80.00
	STIDF	35.00
	State share of CSS	115.98
	Sikkim Ecology Fund	34.38
	TSP/SCSP	15.00
	NABARD	50.00

Table 11

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

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

6. Concluding Remarks

The fiscal outcomes in the year 2016-17 were favorable. The revenue receipts improved over the previous year. While there was the improvement in own tax revenue, the Central transfer became major driving force. The onetime central assistance received at the fag end of the fiscal year could not be put to use. This contributed to the higher revenue receipt figure. The revenue expenditure, however, declined as percentage to the GSDP, resulting in higher revenue surplus. The capital outlay as percentage to the GSDP, which suffered massive decline in 2015-16, due to reduction in the Central transfers, has not recovered yet. There was some minor improvement though. Overall, with large revenue surplus, emergence of fiscal surplus, and marginal increase in debt burden, Sikkim complied with the FRBM Act requirements.

The State had to face several challenges due to the changes in fiscal transfer system. Sikkim is one the few States, which did not gain from the change of the fiscal architecture due to loss of plan grants. The gain in the tax devolution following the recommendations of the 14^{th}FC, could not manage to compensate for the loss of plan grants. The high dependence of the State on central transfers made it difficult for the State to adjust to the new scenario. There were several uncertainties in fund flows to the programs that include the existing weaknesses in the system and emergence of new ones. While the 14^{th} FC expected that, the higher tax devolution would provide more flexibility to the State to manage its spending pattern, overall decline in Central transfers due to reduction in grants put the State in difficulty.

If the onetime grant is removed from the revenue receipt, the fiscal deficit works out to be 2.07 percent instead of fiscal surplus, which remains below the FRBM Act limit. Control over the spending, which involves both the revenue and capital, resulted in reduction in priority sector spending in social and economic services. As it was discussed, the capital outlay has not increased. Considering the aggregate spending, the relative share of committed expenditure has increased in 2016-17. The developmental spending net of debt repayment has shrunk in the fiscal year 2016-17. The fiscal space available to the State Government needs to be put to use in an effective manner.

The fiscal management in the State has not entered into a stressed phase due to the control over spending. Low fiscal deficit and deviation from spending targets characterized the State finances in 2016-17. The State Government needs to address the issue of how best to utilize the fiscal space and continue to adhere to fiscal deficit targets. The facility to increase the fiscal deficit beyond 3 percent of GSDP would influence the fiscal management of the State until 2019-20, the last year of the award period of the 14th FC.

The State needs to address the existing problems in the budget forecasting and implementing the programs, as discussed in the previous sections to make best use of public resources. A credible budget assumes significance to improve service delivery and trust of the people on the governance system. 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.