The Review of Compliance to Sikkim FRBM Act for the year 2015-16

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1. Introduction

The fiscal transfer system in India went through significant changes in the fiscal year 2015-16, due to the recommendations of the Fourteenth Finance Commission (FFC) and consequent changes in the plan transfers by the Central Government. These changes in the Central transfers affected the State Governments 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.

The recommendation of the FFC was expected to reduce the net revenues of the Central government, for which it restructured the plan grants to the States in 2015-16. 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 RashtriyaKrishiVikasYojana (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.

The State of Sikkim witnessed a perceptible change 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.

The FRBM Act, through the provision of independent review and monitoring, provides an institutional process to assess the fiscal management of the State Government keeping in view the fiscal targets and fiscal management principles.The Sikkim FRBM Act provides for independent review of the fiscal policy of the Government and its compliance to the provisions of this Act. 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. This provision follows the TFC recommendations to strengthen accountability system in the process of compliance to the Act. The independent review considers a broader picture of the fiscal management and policy in the State to the State legislature. It helps in providing an unbiased assessment of Government's compliance with the provisions of the fiscal rules and reasons for any deviations.

The specific objective of the review is to examine the concurrence of the State Government to the FRBM Act fiscal targets in terms of deficit and debt stock relative to the State GSDP. The State Act is in line with the fiscal adjustment path recommended by the various Central Finance Commissions.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. The fiscal management principles enshrined in the Act aimed at maintaining debt stock at a sustainable level, using borrowed funds for productive use, pursuing tax policies with due regard to economic efficiency, pursuing expenditure policies to provide impetus to economic growth, and to formulating a realistic budget to minimize deviations during the course of the year.

Any independent review of State finances of Sikkim has to keep in consideration the limited resource base of the State and high dependence on central fund for provision of public services in a difficult hilly terrain. The difficulties necessitate a prudent fiscal management. The 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 2015-16 as prescribed in the FRBM Act of the State.

- Evaluation of the fiscal trends achieved during the year 2015-16 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 study benefited from the discussions with senior officials of the Department of Finance on overall perspective of the State fiscal management including revenue mobilization efforts and the rationale behind resource allocations to different sectors. Discussions with tax department and major spending departments on revenues and expenditure trends and priorities helped this study immensely.

The report is organized as follows. Section 2 provides an overall assessment of macroeconomic outlook and sectoral composition of GSDP. Section 3 contains analysis on state finances in recent years. Compliance of the State Government to the fiscal targets and fiscal management principles under the Sikkim FRBM Act are covered in section 4. Issues related to revenue mobilization and expenditure pattern for the year 2015-16 as compared to the budget provisions are analyzed in Section 5. Concluding observations are contained in Section 6.

2. Macroeconomic Outlook

Before discussing the overall macroeconomic scenarios in Sikkim during the recent years; it is worthwhile to mention in a brief, about the recent change of National Account calculation methodologies. Government of India adopted the UN System of National Accounts (SNA) in 2015 and applied upon the national accounts estimation from 2011-12. This has shifted the major indicator of national account from Gross Domestic Product (GDP) to Gross Value Added (GVA) and in case states this leads a shift from Gross State Domestic Product (GSDP) to Gross State Value Added (GSVA).Central Statistics Office (CSO), has provided sector wise state value added from 2011-12, both in current and constant (2011-12 prices). The database also provides GSDP figures.

The new methodology is showing robust growth in Sikkim with 2011-12 base prices, both with respect toGSVA and GSDP with some decline in the year 2015-16. Sikkim recorded a growth rate of 7.77 percent for GSDP at constant prices and 10.04 percent in current prices in 2015-16. Also, the growth rate of GSVA was recorded at7.50 per centat constant prices and 9.76 per cent at current prices (Table 1).The trend growth rate over the period 2011-12 to 2015-16 at current prices was 8.71 percent for GSDP and 8.39 per cent for GSVA. The per capita GSDP of the state, which was Rs.181,842 in 2011-12, has increased substantially to Rs.264,904 in 2015-16 at current prices.

The composition of the State economy reveals that the industry sector accounts for about 62 percent of the State GSVA with manufacturing accounting for about 43.38 percent in 2015-16. The relative share of service sector has been growing in the State. The relative share of primary sector has been declining over the years and the share of mining and quarrying activities remained very small. However, the share of power sector has also declined substantially during the period from 2011-12 to 2015-16.

Table 1
Composition of GSVA (Constant Prices)

(Percent)

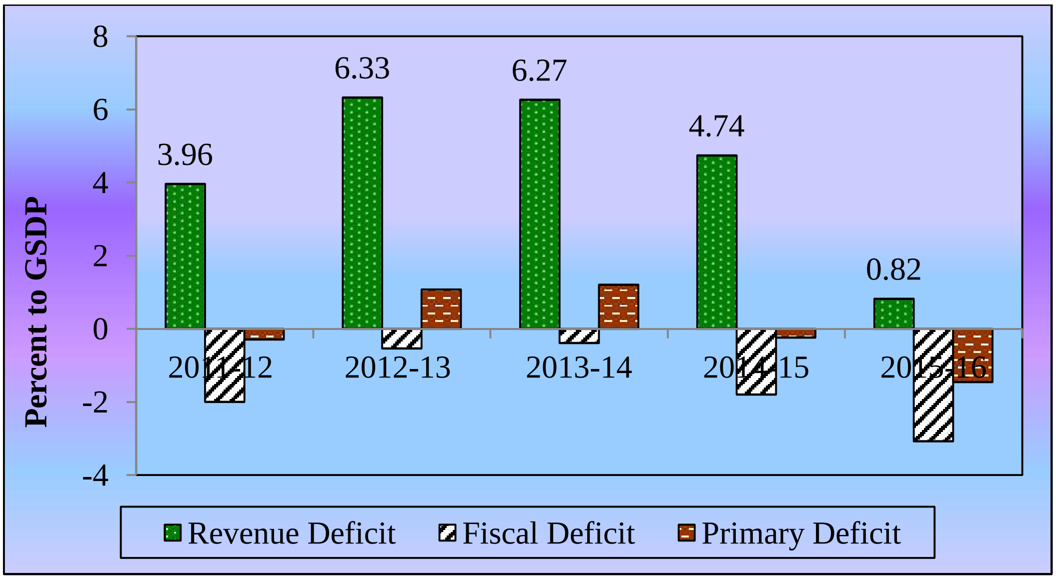
Item	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Primary	**8.35**	**8.50**	**8.39**	**7.97**	**7.31**	**7.17**
Agriculture, forestry and fishing	8.28	8.42	8.30	7.88	7.23	7.09
Mining and quarrying	0.07	0.08	0.09	0.09	0.08	0.08
Secondary	**62.83**	**60.13**	**59.87**	**61.20**	**62.07**	**62.21**
Manufacturing	39.54	38.96	40.06	41.56	43.38	43.79
Construction	6.16	5.70	5.71	5.28	5.08	4.95
Electricity, gas, water supply & other utility services	17.13	15.47	14.10	14.36	13.61	13.46
Tertiary	**28.82**	**31.37**	**31.73**	**30.83**	**30.62**	**30.62**
Transport, storage, communication & services related to broadcasting	2.60	3.05	3.22	3.18	3.19	3.32
Trade, repair, hotels and restaurants	2.89	4.60	5.23	4.77	4.51	4.49
Financial services	1.52	1.56	1.57	1.55	1.59	1.58
Real estate, ownership of dwelling & professional services	5.36	5.38	5.31	4.98	4.76	4.55
Public administration	6.80	7.21	7.19	7.09	7.28	7.30
Other services	9.66	9.57	9.22	9.26	9.28	9.37
TOTAL GSVA at basic prices	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
Growth Rate						
GSVA Constant Growth		1.74	5.15	8.08	7.50	7.16
GSDP Constant Growth		2.29	6.07	7.90	7.77	7.16
GSVA Current Growth		9.87	11.28	11.48	9.76	11.20
GSDP Current Growth		10.51	12.35	11.14	10.04	11.20

Source: CSO,GoI.

3. Overview of the State Finances

The public finance in Sikkim is usually marked by surplus in the revenue account and a low fiscal deficit below the permissible level prescribed in the FRBM Act. However, in 2015-16, the revenue surplus reduced to 0.82 percent to GSDP, whereas the budgeted estimate of revenue deficit was 3.21 percent to GSDP. This level of revenue surplus is low as compared to the previous years. In 2015-16, Sikkim incurred a fiscal deficit of 3.07 percent to GSDP and a primary deficit of 1.45 percent to GSDP, which is highest during the last five years (Figure 1). While the State abided by the fiscal deficit targets stipulated in the FRBM Act, the marginal rise above the 3 percent target is 2015-16 should be considered a marginaldeparture. 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. However, there were procedural requirements, under which this particular permission was not available to the State in 2015-16. However, it signals that it will be very difficult for the State to hold on to the low deficit regime.

Figure 1
Fiscal Outcomes in Sikkim



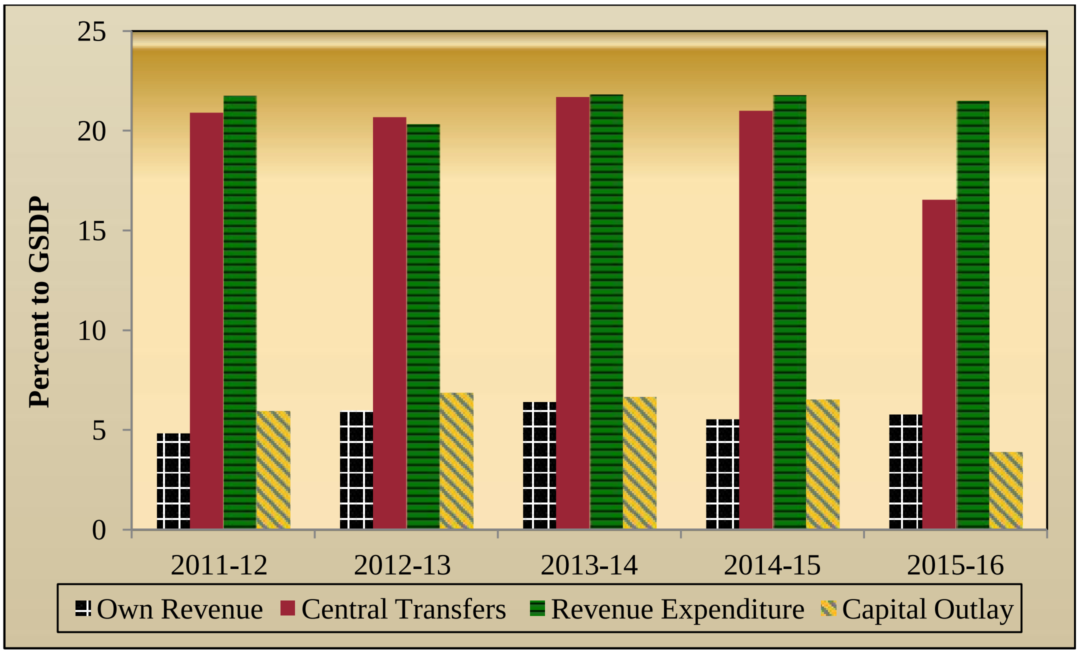
In earlier years, despite having sizable capital outlay expressed as percentage to the GSDP, the fiscal deficit remained low due to large revenue surplus. Large revenue surplus in the State was due to high dependence on Central transfers, all of which are usually booked under revenue receipts. Many of 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 increase infiscal deficit in 2015-16, marginally beyond the 3 percent mark, was due to low revenue realization.

The fiscal outcomefor the year 2015-16signals warning bell for the future years as unlike the past, the fiscal deficit breached the 3 per cent target and revenue deficit has shrunk. This fiscal stance indicates shrinkage of fiscal space to the Government, for which the State Government needs to take sufficient care to remain on the fiscal consolidation path. Large unspent balances, which used to be there in the revenue account, resulted in revenue surplus and reduction in the fiscal deficit in respective years. Thus, the fiscal deficit does not reflect the actual gap. However, during 2015-16, the unspent balance has come down to Rs.206 crores as against Rs.516.06 crores in the last year.

The capital outlay, which remained reasonably high in the State as percentage to the GSDP, came down to3.89per cent in 2015-16, as against 6.53 per cent in the previous year. In terms of nominal numbers, the capital outlay was Rs. 980.71 crores in 2014-15, which came down to Rs. 633.98 crore in 2015-16. The size of the capital outlay in the State usually related to the provisions made in the CSS and other Central programmes though NEC and NLCPR schemes. The reduction in plan grants and lack of flow of funds from the State's own resources affected the capital outlay. To increase the capital outlay, the State Government needs to provide more funds from its own sources and borrowing. The borrowing is, however, limited to the ceilings fixed by the Central Government aligned with the fiscal deficit target stipulated by the FRBM Act. Thus, the capital outlay will continue to vary depending upon the flow of funds under the Central programmes and level of resources generated by the State.

Figure 2 depicts the trends in own revenue receipts, central transfers, revenue expenditures and capital outlay (on general, social and economic services together). The trend shows that, in 2015-16, the aggregate revenue receipts declined as percentage to the GSDP and the Government managed to keep the revenue expenditure controlled marginally lower than the previous year. This has resulted in low revenue surplus and much reduced capital outlay. The revenue expenditure shows typical stickiness due to committed spending. The own revenue receipts of the State, both tax and non-tax receipts taken together, marginally increased to 5.78 percent to GSDP in 2015-16 from 5.52 percent in 2014-15. The Central transfer including share in Central taxes and grants, which showed an increasing trend since 2011-12 has declinedsignificantly in 2015-16 to 16.54 percent to GSDP. Given this resource position, the State Government seems to have tightly controlled the revenue expenditure. The revenue expenditure declined to 21.50 percent to GSDP in 2015-16.It was the capital outlay, which suffered most as it declined from 6.53 percent to GSDP in 2014-15 to 3.89 percent to GSDP in 2015-16. The decline in capital outlay reflects overall decline resource position of the State Government.

Figure 2
Broad Fiscal trends in Sikkim



The revenue receipts of the State in 2015-16 shows a substantial slide as compared to the previous two years. The own tax revenue of the State as percent to GSDP, during 2015-16 was at 3.34, which is an equal with the average of last four years, whereas, in 2013-14 own tax revenue was 3.79 percent to GSDP (Table 2). However, the own non-tax revenue reported an increment in 2015-16 than 2014-15 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. The aggregate revenue receipt of the state was at 22.32 percent of GSDP in 2015-16as against 26.53 percent in 2014-15.

Table 2
Revenue Receipts in Sikkim

Percent of GSDP

Heads	2011-12	2012-13	2013-14	2014-15	2015-16
Revenues	**25.72**	**26.65**	**28.09**	**26.53**	**22.32**
Own Tax Revenues	**2.63**	**3.53**	**3.79**	**3.42**	**3.34**
Sales Tax	1.11	1.84	2.07	1.83	1.92
State Excise Duties	0.86	0.90	0.87	0.85	0.84
Motor Vehicle Tax	0.15	0.13	0.13	0.13	0.13
Stamp Duty and Registration Fees	0.07	0.04	0.05	0.04	0.05
Other Taxes	0.44	0.61	0.67	0.57	0.40
Own Non-Tax Revenues	**2.19**	**2.45**	**2.61**	**2.10**	**2.44**
Central Transfers	**20.91**	**20.67**	**21.69**	**21.01**	**16.54**
Tax Devolution	5.48	5.66	5.50	5.25	11.03
Grants	15.43	15.01	16.19	15.75	5.51

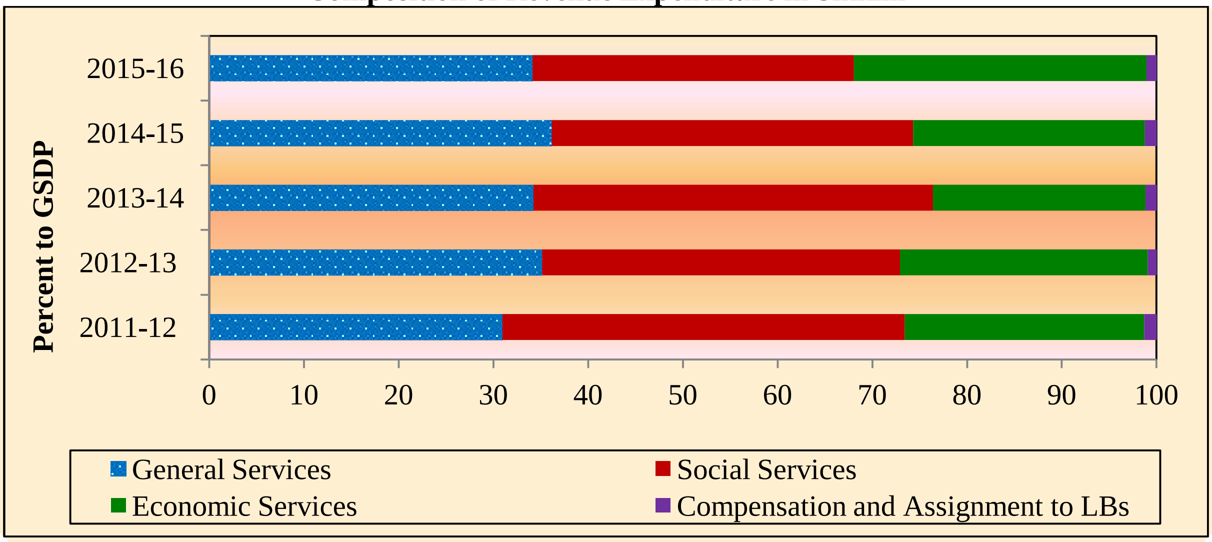
Source (Basic Data): Finance Accounts, State Budget 2017-18, and CSO

While, the sales tax collections showed an increasing trend as percentage to the GSDP since 2011-12, it came down in 2014-15 and recovered marginally in 2015-16 (Table 2). The State Government had been sprucing up its tax administration to meet the challenges of the introduction of the GSDP. State excise duty as percentage to the GSDP has been has been declining since 2013-14.The Motor vehicle tax as well as stamp duty and registration fees remains almost stagnant from 2012-13 to 2015-16. Both have reduced slightly from 2011-12. Thus, the decline in State taxes as percentage to the GSDP contributed to overall decline of the revenue receipts.

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

The State depends heavily on Central transfers due low resource base. More than three fourths of the total State revenues comes from Central sources. 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. 2804 crore in 2015-16 in nominal terms. However, as percentage of GSDP, the Central transfer has decreased from about 20.9 percent to 16.54 percent during this period. Also, in nominal prices, the amount of Central transfers has reduced significantly from the previous two years. In 2014-15 the amount of Central Transfers was Rs. 3236.31 crore and the share to GSDP was 21.01 percent. It is true that in 2015-16, with the 14th Finance Commission's recommendations the share in Central taxes has more than doubled compared to 2014-15, but grants from Centre has declined significantly 2015-16.The share of grants from Centre to GSDP in 2015-16 came down to 5.51 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. The transfer dependency of the State is evident as due to decline in Central transfers, the expenditures as percentage to the GSDP also have declined in 2015-16.

Figure 3
Composition of Revenue Expenditure in Sikkim



Coming to the discussion on public expenditure of Sikkim government, we have started with examining the resource allocation to different sectors for the revenue expenditure, as the public expenditure is dominated by the revenueexpenditure. The composition of revenue expenditure, given in Figure 3, shows that the relative shares of social services dipped from 38.12 in2014-15 to 33.92 percent in 2015-16. The directly productive economic service continues to show an increasing trend in the State as its share in revenue expenditure increased to 30.89 percent in 2015-16 as against 24.46 percent in the previous year. The share of general service decreased in 2015-16to 34.13 percent from 36.17 percent in 2014-15. It is important for the Government of Sikkim to focus on directly productive social and economic sectors so that the overall composition of revenue expenditure adds value to the public expenditure.

Composition of revenue expenditures can also be examined from the point of expenditures' view thatis 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, which showed a decline in 2013-14, increased in 2014-15 and 2015-16, due to higher salary and pension payments. Higher committed spending reduces the scope for any other type of development work (Table 3).

Table 3
Committed Revenue Expenditure in Total Revenue Expenditure

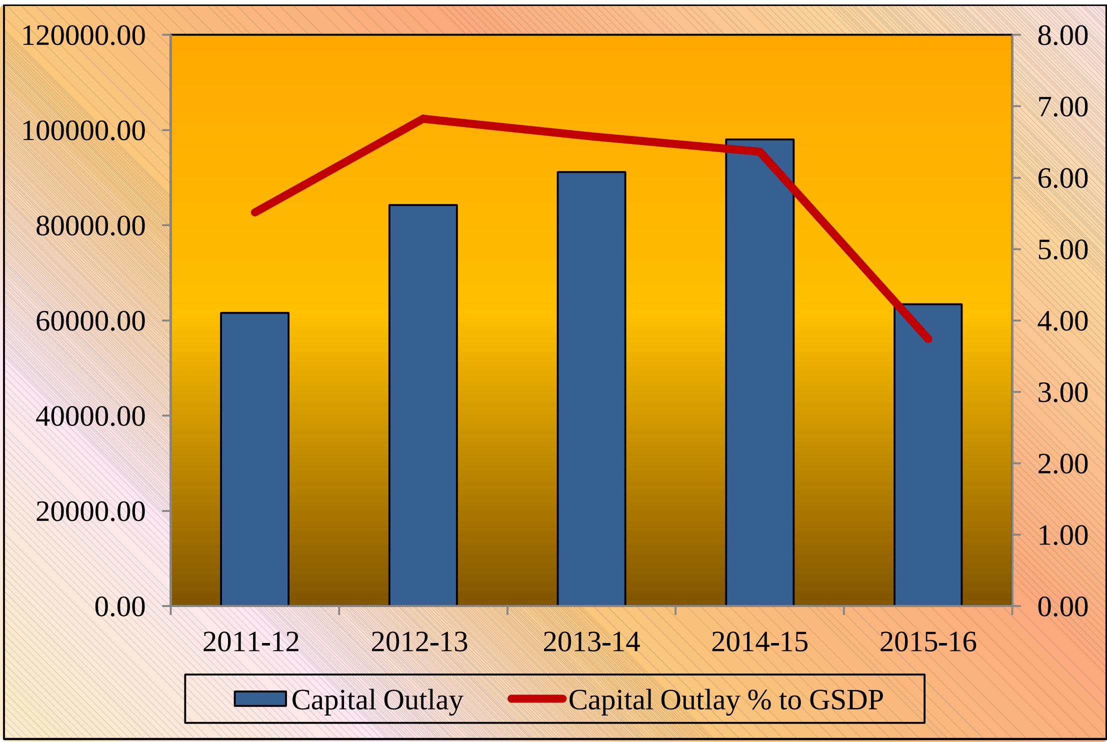
(Percent)

Committed Expenditure	2011-12	2012-13	2013-14	2014-15	2015-16
Salaries and Wages	35.00	47.29	44.65	44.99	48.84
Interest Payments	7.85	7.93	7.31	7.14	7.52
Pensions	7.15	8.98	8.62	9.92	11.38
Total	50.01	64.21	60.58	62.04	67.74

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

During the previous years, the Capital outlay on various services (general, social, and economic) in the State has remained reasonably high (Figure 4). 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 to 3.74 percent in 2015-16 from 6.37 percent in 2014-15 (net lending not included here). Capital expenditures of the right kind have a major role to play in stimulating the rate of growth of the state economy. It contributes to growth more directly. Although, capital expenditure was showing a positive trend, its decline as percentage to GSDP in 2015-16 due to resource pressure is a matter of concern. The State government should finance identified public investments with high social returns.

Figure 4
Capital outlay in Sikkim



The indebtedness of the Government of Sikkim has declined significantly over the years (Table 4).Taking all types of liabilities, the total stock decreased from 22.86 percent of GSDP in 2011-12 to 22.6 percent in 2014-15, with indebtedness falling consistently every year throughout the period. However, it has increased to 23.36 per cent to GSDP in 2015-16, due to the internal debt of the state government. Till 2014-15, FRBM Act of the state stipulates to maintain the outstanding debt at prudent and sustainable level. The decline in the average cost of debt of the state because of the debt restructuring formula of the Twelfth Finance Commission has helped to lowering the debt burden. However, the decrease in grants from Centre Governments, lead o increment in ‘liabilities of Sikkim Governments’. As the State Government managed to adhere to the FRBM Act targets for the fiscal deficit till 2014-15, the debt burden has reduced significantly; whereas the increased deficits leads the state to increase debt burden. The aggregate level of indebtedness in 2013-14 indicates that the State Government complied with the TFC recommendations and its own FRBM targets.

Table 4
Liabilities of the Government of Sikkim

(Percent of GSDP)

	2011-12	2012-13	2013-14	2014-15	2015-16
A.Public Debt	16.59	16.03	15.77	16.29	17.51
Internal Debt	15.18	14.82	14.85	15.51	16.84
Loans and Advances from the Central Govt.	1.41	1.21	0.92	0.79	0.67
B.Other Liabilities	6.27	6.32	6.37	6.30	5.85
Small savings,Provident Fund etc.	5.18	5.06	4.95	4.61	4.41
Total Public Debt and Other Liabilities	22.86	22.35	22.14	22.60	23.36

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, enshrined fiscal targets and fiscal management principles to establish fiscal stability and sustainability. 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 FRBM Act stipulates to present a medium term fiscal plan (MTFP) for three years including the budget year in the State legislature along with the budget documents. The Act has prescribed the fiscal targets to be achieved since 2011-12. It mandates the State Government to present a half-yearly report card on progress to achieve the 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 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 for three years along with the 2015-16 budget documents. The objective of MTFP is to provide the fiscal plan of the Government to raise the revenues, resource allocation priorities, and borrowing plan for the ensuing year in a transparent way. This statement contains three-year rolling targets for revenue deficit, fiscal deficit, and the debt-GSDP ratio – for the ensuing year, and for two subsequent years synchronizing with the Act provisions. It also contains medium-term fiscal objectives, perspective on the growth of the State economy, the strategic priorities for revenues and expenditures, and the conformity of the fiscal outlook of the Government with the fiscal principles enshrined in the Act. The first year of the MTFP projections is the budget estimates for the year 2014-15.

The Government of Sikkim, as per the 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. For Sikkim, the debt-GSDP ratio recommended by the 13th Finance Commission for the year 2014-15 was 55.9 percent.

   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 ration worked out in this illustrative exercise as recommended targets for Sikkim and included then in the amendments in 2016. According to the debt-GSDP ration for Sikkim becomes 20.63 percent in 2015-16. The debt-GSDP targets in 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 sued debt-GSP targets of 25 percent to assess the State's compliance.

Unlike 2014-15, the fiscal year 2015-16 also witnessed lower revenue generation both from internal and Central sources and as a result the expenditure was compressed under revenue and capital heads. As a result, the revenue surplus in 2015-16 has reduced to less than 1 percent of the GSDP.The aggregate revenue receipts as percentage to the GSDP in 2015-16 was 22.32 percent, as compared to 26.53 percent in 2014-15. Clearly, the impact of lower revenue generation was felt on both the revenue and capital spending. As mentioned in the previous section, the capital outlays haveexperienced a decline from 6.37 percent in 2014-15 to 3.74 percent in 2015-16. The fiscal deficit was much higher in 2015-16 at 3.07 percentto GSDP as compared to 1.79 percent in 2014-15 and 0.38 percent in 2013-14. This year the fiscal deficit is higher than the permissible level of 3 percent of GSDP. Despite rise in tax devolution, the decline in plan grants reduced the aggregate revenue receipts.

As discussed, the breaching of the fiscal deficit target also can be read from the point of view the eligibility of the State to increase the fiscal deficit target, at least by another 0.25 percentage points based on its record of fiscal prudence. This was recommended by the FFC. However, to increase the fiscal deficit limit, the State Government needs go ahead from the Central Government. The stock of outstanding liabilities has increased to 23.36 percent in 2015-16, as compared to 22.6 percent to GSDP in the previous fiscal year.

The fiscal targets specified in the FRBM Act and the outcomes for the year 2015-16 are shown in Table 5. 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 0.82 and incurred a fiscal deficit of 3.07 percent of GSDP. In nominal terms, the amount of revenue surplus declined to Rs. 139.71 crore in 2015-16 from Rs. 731 crores in 2014-15 and Rs.868.48 crores in 2013-14. Also the fiscal deficit in 2015-16 has increased to Rs. 519.93 crores from Rs. 275.40 crores in 2014-15. It is worth noting, that the fiscal deficit in 2015-16 was almost 10 times higher than the amount of fiscal deficit in 2013-14, which was Rs. 52.94 crores.

Outstanding debt burden, an outcome of the fiscal management the State, at 23.98 percent relative to the GSDP remained higher than the target of 20.63 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 2015-16strictly do not comply with the stipulated targets, the performance of the State could be considered as satisfactory. The rise in fiscal deficit, marginally though, shows lack of fiscal space within the resource envelope. The State Government needs to strengthen its resource base to provide for the priority sector spending.

Table 5

FRBM Act Targets and Fiscal Achievements during 2015-16

Percent

	Targets	**Achievements**
Revenue Deficit % of GSDP	0	-0.82
Fiscal Deficit % of GSDP	3.00	3.07
Total Debt Stock % of GSDP (TFC Target)	25	23.36
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 most interesting feature of any State FRBM Act in India, is 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. Unlike the mandatory fiscal targets, these principles do not contain any target. 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.

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 23.36 percent in 2015-16 as against 22.60 percent in the previous year.

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 do not exhaust the borrowing limit. The accumulated debt stock continued to decline, as the growth of the nominal GSDP has remained high in Sikkim. As the fiscal deficit has been contained at a low level in 2013-14, there was no pressure on resorting to any other borrowing options to increase the accumulated liabilities. Borrowing and repayment for the year 2015-16 shown in Table 6 reveals that actual public debt that includes internal debt (market and institutional borrowing) and loans from Central Government was less than the budget estimates. Thus, due to high growth of GSDP, substantial revenue surplus, and the limit put by the Central Government on borrowing, the debt stock as percentage to GSDP has come down in Sikkim. In the fiscal year 2015-16, however, the rise in debt stock was more due to declined level of revenue surplus and utilization of debt limit fixed by the Central Government.

The FRBM Act requirement of using borrowed funds exclusively for creating capital assets is satisfied, as there was surplus in the revenue account. 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. Although the capital outlay remained comfortable in all these years, 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.

Table 6

Borrowings and Repayments: 2015-16

(Rs.Lakh)

	Budget Estimates	Actual	Difference
Public Debt Receipts			
Internal Debt	69438.27	65204.75	-4233.52
Loans Advances from Central Government	631.40	282.91	-348.49
Public Debt	**70069.67**	**65487.66**	**-4582.01**
Small Savings and Provident Fund	**26351**	**27787.09**	**1436.09**
Total	**96420.67**	**93274.75**	**-3145.92**
Debt Repayments			
Internal Debt	18962.20	18615.54	-346.66
Loans Advances from Central Government	1041.47	996.82	-44.65
Public Debt	**20003.67**	**19612.36**	**-391.31**
Small Savings and Provident Fund	**22519.00**	**24021.45**	**1502.45**
Total	**42522.67**	**43633.81**	**1111.14**

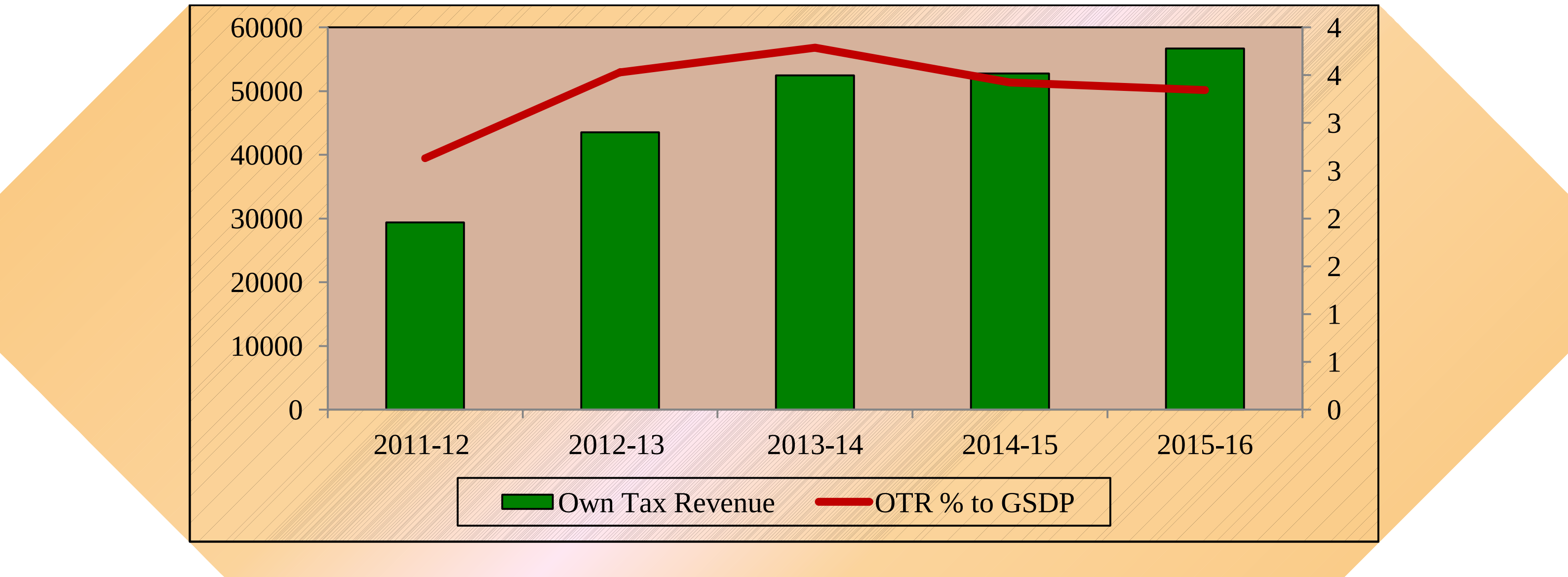
Source: Finance Accounts and Budget Document for the year 2015-16 & 2017-18

Tax Policy and Administration

The principles relating to tax policy and administration in the Act underline reduction of discretion and make the tax system simple. 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 2014-15, and again increased in 2015-16 (Figure 5). One of the important features of a good tax system is to maintain stability and predictability in the level of tax burden. Although the own-tax performance was not adequate in 2015-16, 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 preoccupation 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 5
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 increased in 2015-16 over the previous year. Its relative share in total own revenue of the State has increased from 38.03 percent to 42.15 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 2015-16, interest receipts, power sector, transport and forestry sector provided higher income to the State. The lottery income, has not proved to be stable sources 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 fiscal policy, particularly the spending decisions, according to the FRBM Act should focus on providing impetus to economic growth, poverty reduction, and improvement in human development. The fiscal management principles also requires the Government to improve institutional framework to maintain physical assets, increase transparency, minimize fiscal risks associated with public sector undertakings (PSUs), and formulate realistic budget formulation to minimize the deviations during the course of the year. The achievement of these goals needs to be assessed over a long period.

The achievement of socio-economic development in Sikkim has been significant. The State economy has experienced substantial growth in recent years and the per capita income of the state has increased from Rs.1,81,842 in 2011-12 to Rs.2,64,904 in 2015-16 at current prices. The major socio-economic indicators for the State show commendable improvement. The poverty ratio has declined to 8.19 per cent as compared to all India average of 21.92 per cent in 2011-12. The literacy rate at 81.40 per cent in 2011-12 is significant achievement. The IMR has gone down to 24 per 1000 in 2011 as compared to the all India average of 44. The rebuilding and reconstruction activities required after the devastating earthquake of 2011 has been continuing funded by both the Central and the State Government.

The Government of Sikkim, however, continues to spend large amounts of public resources on general service, which is relatively less productive for the State.There has been some realignment in the spending pattern in the year 2015-16. While the share of general services and social services in revenue expenditure has declined, the share of economic services has increased. The capital outlay, which was traditionally high in Sikkim, has shown a downward trend in recent years. As the available fiscal space for he Government has been shrinking, it needs to set its priorities right within the available resource envelope.

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

Fiscal transparency measures enunciated in the 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 capacity of the Government to deliver the public services as promised in budget depends upon its ability to raise the projected revenue and implement the budgeted expenditure. When the Government deviates from its projected revenues, then the credibility of Government policies suffer. Although exigencies happen, but there should not be willful mismanagement while forecasting the revenues and allocating resources to programs. The fiscal management principles, enshrined in the FRBM Act, therefore, require that the budget should be formulated in a realistic manner to minimize the deviations from the projections. In this section, a comparison between budget estimates and fiscal outturns for the year 2015-16 is provided. Table 7 shows the fiscal variables as projected in the budget for the year 2015-16 and the achievements for the year. The fiscal indicators for both the budget estimates and budget outturns are shown as percentages of the GSDP at current prices.

In addition to growing slowly over the previous year, the revenue receipts in 2015-16 also fell short of the budget estimates considerably (Table 7). This deviation affected realization of both the revenue and capital expenditure as they were voted in the legislature. The revenue receipts declined by 6 percentage points relative the GSDP over the budget estimates. This is equivalent to 20.57 percent when the actual difference was compared to the budget estimates. The revenue and capital expenditures were low by 3.62 and 2.40 percentage points relative to the GSDP. This translates to 14.42 percent for the revenue expenditure and a massive 38.14 percent decline in actual spending from the budget estimates.

While the Government managed to improve the non-tax revenue by 31.96 percent as compared to the budget estimates, the own-tax revenue fell marginally by 1.14 percent. The huge decline in Central transfers by 27.93 percentrelative affected the aggregate revenue the most. The compression of the revenue expenditure by 14.42 percent resulted in surplus in the revenue account. However, the Government planned a large revenue surplus for the year in the budget, which declined by a whopping 72.39 percent.

Table 7
Budget Estimates and Outturns for the year 2015-16

(Percent to GSDP)

	2014-15	2015-16	2015-16 (BE)	Difference (Actual to BE)	Difference in % to BE
Revenues	**26.53**	**22.32**	**28.32**	**-6.00**	**-20.57**
Own Tax Revenues	**3.42**	**3.34**	**3.31**	**0.04**	**1.15**
Own Non-Tax Revenues	**2.10**	**2.44**	**2.07**	**0.37**	**31.96**
Central Transfers	**21.01**	**16.54**	**22.95**	**-6.41**	**-27.93**
Tax Devolution	5.25	11.03	11.35	-0.32	-2.83
Grants	15.75	5.51	11.60	-6.09	-52.49
Revenue Expenditure	**21.79**	**21.50**	**25.12**	**-3.62**	**-14.42**
General Services	7.88	7.34	7.83	-0.49	-6.32
Social Services	8.31	7.29	8.36	-1.07	-12.83
Economic Services	5.33	6.64	8.73	-2.09	-23.97
Compensation and Assignment to LBs	0.27	0.23	0.19	0.04	21.32
Capital Expenditure	**6.53**	**3.89**	**6.29**	**-2.40**	**-38.14**
Capital Outlay	6.37	3.74	6.17	-2.43	-39.36
Net Lending	0.17	0.15	0.12	0.03	22.92
Revenue Deficit	**-4.74**	**-0.82**	**-3.21**	**2.38**	**-72.39**
Fiscal Deficit	**1.79**	**3.07**	**3.08**	**-0.02**	**-7.22**
Primary Deficit	**0.23**	**1.45**	**1.40**	**0.05**	**-10.64**
Outstanding Debt	**22.60**	**23.36**	**23.22**	**0.14**	**0.62**

Source: Basic data – Finance Accounts and Budget Document for the year 2015-16, GoSGSDP data used are of 2011-12 series

In the case of capital expenditure, there was a shortfall of 2.40 percentage points relative to the GSDP, which amounts to a massive shortfall of 38.14 percent from the budget estimates. Although capital outlay was considerably less as compared to the budget estimates, the fiscal deficit was higher as compared to the previous year, due to lower realization of revenue receipts. The outcome of the budget management was the rise in debt stock from 22.6 percent of GSDP in 2014-15 to 23.36 percent in 2015-16.

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 6 percentage points relative to GSDP. The fiscal year 2015-16 is the first year of a changed fiscal transfer system in which tax devolution was raised and the plan grants were considerably curtailed. It was a challenge to adjust to the new dynamics. There were uncertainties in the flow of funds to the programs earlier funded by the central resources.

At the same time, uncertainties also created due to non-receipt of Central transfers and late receipt of funds, which could not be utilized during the year. The non-receipt of Central transfers is the difference between what was budgeted and what was actually received from the Central Government. The difference works out to be Rs.1086.69 crores (Table 9). The major deviation of Rs.1032.28 crores was from grants alone. There could be two major reasons for non-receipt of funds budgeted for the fiscal year. First, the inability of putting State's share in central programs stops the release of the second installment of already agreed upon fund flows. The second is the anticipated projection of flow of funds that was not materialized. This happens mainly in the case of NEC and NLCPR transfers.

Delayed receipts of Central fund wereone major reason for problems in the budget management system in Sikkim. The funds received during the last quarter of the fiscal year could not put to use and large part of it remains as unspent amount. This has been a continuing practice over last many years.However, in 2015-16, the total grants were less due curtailed transfers and the unspent amount (Table 8). The unspent amount, though less as compared to the previous years, as proportion to the total grants it still remained large. The unspent amount for the whole year was Rs.206.41crores. Although, the government usually includes the unspent amount in the plan of spending for the following year on the projects conceived in the budget year, the spending plan of the budget is not met. The issues relating to delay in implementation of projects and submission of utilization certificate is also a reason for late arrival of funds from the central Government.

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

Table 8

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

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**

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 budgeted to be spent next year, on the same projects, the time-overrun results in cost overrun requiring larger amount of resources for completion of the projects.

Compared to the last four years, when the fiscal deficit was very low at below two percent level, in 2015-16 the fiscal deficit increased to 3.07 percent. The rise in fiscal deficit in this year is an issue of concern for the State Government, as it became higher than the FRBM target of 3 percent of GSDP, after remaining below that for a long period. The rise in fiscal deficit is more to do with decline in revenue surplus resulting due to lower level of revenue receipts as percentage to the GSDP. Capital outlay also was low as result of pressure on resource generation. It raises question regarding the availability of fiscal space to the State government to increase the spending in priority sectors including infrastructure. Without expanding the resource base, be it internal or higher level of transfers from the Central Government, it might be difficult to pursue a higher level of spending policy. As the borrowing limit allowed by the government of India mostly exhausted every year, the State Government needs to strengthen its resource base. The other option is to restructure the expenditure pattern by focusing more on the priority sectors in resource allocation process.

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

5.1 Disaggregated Analysis of Revenue Receipts

The detailed sources of actual and budgeted revenue receiptsare given in Table 9. The own tax revenue of the State in 2015-16 has increased by 7.44 percent over the last year. The realized tax receipt was at higher side of the budget estimates. It exceeded the projections marginally by only Rs.6.44 crores, which forms 1.15 percent of the budget estimates. Among the components of the State taxes, sales tax and excise exceeded the budget projections by Rs.25.72 crores and Rs.7.08 crores respectively. Although the target set in the budget was met in 2015-16, the growth over last year was not sufficient to make any impact State finances.

The own non-tax revenue of the State was also higher by about Rs.100 crores as compared to the budget estimates, which forms about 31.96 percent of the budget estimates. While there was higher realization from interest receipts by Rs.41.32 crores, the income from state lotteries was less by Rs.17.38 crores as compared to the budget. The higher interest receipts were due to increase in investment of cash balances. This rise in cash balance is related with unspent amount from the funds received for centrally sponsored schemes. The power sector in 2015-16 has shown higher revenue of Rs. 22.58 crore compared to budget estimates.

Table 9
Revenue Realization: 2015-16

Rs. Lakh

	2014-15	2015-16	2015-16 (BE)	Difference (Actual to BE)	Difference as % to BE	Growth
Own Tax Revenues	**52755.09**	**56681.58**	**56037.92**	**644**	**1.15**	**7.44**
Sales Tax	28210.06	32572.03	30000.00	2572	8.57	15.46
State Excise Duties	13136.19	14208.07	13500.00	708	5.24	8.16
Motor Vehicle Tax	1941.39	2235.70	2107.40	128	6.09	15.16
Stamp Duty and Registration Fees	676.56	851.06	764.46	87	11.33	25.79
Other Taxes	8790.89	6814.72	9666.06	-2851	-29.50	-22.48
Own Non-Tax Revenue	**32377.60**	**41299.43**	**31296.11**	**10003**	**31.96**	**27.56**
Interest Receipts	6644.03	7252.35	3120.75	4132	132.39	9.16
Dividends and Profits	87.02	1269.85	100	1170	1169.85	1359.26
Police	1759.78	6167.90	5534.75	633	11.44	250.49
Public Works	365.95	424.93	682.58	-258	-37.75	16.12
Administrative Services	1359.42	730.21	1039.87	-310	-29.78	-46.29
State Lotteries	41864.03	2002.34	3740.02	-1738	-46.46	-95.22
Education, Sports, Art & Culture	121.67	116.1	116.8	-1	-0.60	-4.58
Medical and Public Health	197.33	215.16	250	-35	-13.94	9.04
Water Supply and Sanitation	324.50	380.03	399.2	-19	-4.80	17.11
Urban Development	111.56	115.03	41.12	74	179.74	3.11
Forestry and Wildlife	1144.87	1278.54	1206	73	6.01	11.68
Plantations	231.27	385.52	518	-132	-25.58	66.70
Other Rural Development Programme	165.35	94.49	150	-56	-37.01	-42.85
Power	11355.75	14767.85	12510	2258	18.05	30.05
Road Transport	2762.57	4155.09	3935	220	5.59	50.41
Tourism	263.92	396.3	313.6	83	26.37	50.16
Others	-36381.42	1547.74	-2361.58	3909	-165.54	-104.25
Central Transfers	**323631.76**	**280447.57**	**389117.01**	**-108669**	**-27.93**	**-13.34**
Tax Devolution	80932.00	187028.00	192469.00	-5441	-2.83	131.09
Grants	242699.76	93419.57	196648.01	-103228	-52.49	-61.51

Decline of Central transfers by a whooping Rs1086.69 crores as compared to the budget was the real reason for the aggregate shortfall in the revenue receipts in 2015-16. While both the tax devolution and grants were less than the budget projections, the shortfall in the case of grants was considerable. The reasons for this large deviation have been discussed earlier. The Government needs to utilize an unbiased projection for budgetary resource allocation and coordinate with Central Government agencies managing the programs for better information on flow of funds.

5.2 Disaggregated Analysis of Expenditure Pattern

Although the revenue expenditure in 2015-16 shows a reasonable growth rate of 8.58 percent over the last year, the deviation from the budget estimates is large. The decomposed revenue expenditure profile for the year 2015-16given in Table 10 shows that the revenue expenditure fell short of the budget estimates by Rs.613.93croers, This amounts to 14.42 percent of budget estimates in nominal terms. The deviations were more in social and economic services; the decline in general services seems to be low. The gap between actual spending and the budget estimates in social services was Rs.181.94croers and in economic services it was Rs.354.92 crores. The contraction in revenue expenditure was more due to shortfall in spending in productive economic services.

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

Table 10

Revenue Expenditure Profile: 2015-16

Rs.Lakh

	2014-15	2015-16	2015-16 (BE)	Difference (Actual to BE)	Difference in % to BE	Growth
Revenue Expenditure	**335664**	**364458**	**425851**	**-61393**	**-14.42**	**8.58**
General Services	**121412**	**124380**	**132770**	**-8389**	**-6.32**	**2.44**
Interest Payment	23955	27407	28527	-1119	-3.92	14.41
Pension	33308	41479	43360	-1881	-4.34	24.53
Other General Services Excluding Salary	64150	55494	60883	-5389	-8.85	-13.49
Social Services	**127972**	**123619**	**141813**	**-18194**	**-12.83**	**-3.40**
Education	72873	77272	82953	-5680	-6.85	6.04
of which, 2202 - General Education	71175	75463	80921	-5459	-6.75	6.02
Medical and Public Health	18318	19446	22086	-2640	-11.95	6.15
Water Supply & Sanitation	2837	3981	4084	-103	-2.51	40.31
of which, 01 - Water Supply	2496	3114	2171	943	43.44	24.72
Housing	14461	3770	6251	-2481	-39.69	-73.93
Urban Development	3447	3033	3582	-549	-15.33	-12.02
Information and Broadcasting	1044	634	577	57	9.87	-39.29
Welfare of SCs, STs & OBCs	2731	3092	5192	-2100	-40.45	13.20
02 - STs	1026	1118	1681	-563	-33.51	9.01
Labour and Employment	507	520	694	-174	-25.05	2.57
Social Welfare and Nutrition	9420	11153	15623	-4470	-28.61	18.41
of which, 2235 - Social Security and Welfare	5215	6847	10905	-4058	-37.21	31.30
2236 - Nutrition	1125	1115	1504	-389	-25.87	-0.89
2245 - Relief on A/c of Natural Calamities	3081	3192	3215	-23	-0.72	3.63
Other Social Services	2333	719	772	-53	-6.91	-69.18
Economic Services	**82096**	**112579**	**148070**	**-35492**	**-23.97**	**37.13**
Agriculture and Allied Activities	28069	30903	38989	-8087	-20.74	10.09
of which, 2401 - Crop Husbandry	9711	15404	15655	-251	-1.60	58.63
2403 - Animal Husbandry	3069	3371	4236	-865	-20.43	9.83
2406 - Forestry and Wild Life	8630	5633	10016	-4383	-43.76	-34.73
2408 - Food Storage and Warehousing	2619	1696	2228	-531	-23.85	-35.23
Rural Development	16648	14547	17789	-3242	-18.22	-12.62
Irrigation and Flood Control	1813	3396	10384	-6988	-67.30	87.31
of which, 2702 - Minor Irrigation	1653	2386	9374	-6988	-74.55	44.37
2711 - Flood Control and Drainage	160	1010	1010	-0.02	0.00	530.02
Energy	13713	21677	22387	-711	-3.17	58.07
of which, 2801 - Power	13553	21527	22237	-711	-3.20	58.83
Industry and Minerals	3988	3295	3729	-434	-11.64	-17.37
of which, 2851 - Village and Small Industries	1939	2224	2573	-349	-13.57	14.66
Transport	14212	12494	13381	-888	-6.63	-12.09
of which, 3054 - Roads and Bridges	9774	8180	8804	-624	-7.08	-16.31
General Economic Services	3262	27569	40647	-13078	-32.17	745.19
of which, 3451-Secretariat-Economic Services	369	23815	36006	-12191	-33.86	6346.34
3452- Tourism	1869	2133	2244	-110	-4.92	14.14
Other Economic Services	391	-1302	763	-2065	-270.55	-432.83
Compensation and Assignment to LBs	**4184**	**3880**	**3198**	**682**	**21.32**	**-7.27**

There was large shortfall in capital expenditure as compared to that of the budget estimates of the year 2015-16 (Table 11). The actual expenditure was less by Rs.411.55 crores, which was about 39.36 percent of the budget amount. This is quite large given the size of the State budget. The capital outlay fell short of the budget estimates by large amount in all sectors – general, social, and economic services. In the case of general services, a shortfall of Rs.64.31 crore was found as compared to the budget estimates. In the case of social and economic services, the shortfall was of Rs.181.35 crores and Rs.165.89 crores respectively. The sectors where major shortfall was witnessed were education, water supply and sanitation, energy, transport and tourism, public works.

Table 11

Capital Expenditure Profile

Rs.Lakh

	2014-15	2015-16	2015-16 (BE)	Difference (Actual to BE)	Difference in % to BE	Growth
Capital Outlay	**98071.03**	**63398.28**	**104553.01**	**-41154.73**	**-39.36**	**-35.35**
General Services	**10951.99**	**6396.95**	**12828.04**	**-6431.09**	**-50.13**	**-41.59**
Police	2023.33	494.27	142.82	351.45	246.08	-75.57
Public Works	8928.66	5902.68	12685.22	-6782.54	-53.47	-33.89
Social Services	**26981.49**	**20080.07**	**38214.77**	**-18134.70**	**-47.45**	**-25.58**
Education, sports, art & culture	3173.98	1858.24	5530.45	-3672.21	-66.40	-41.45
Medical and Public Health	6132.81	6618.09	12097.06	-5478.97	-45.29	7.91
Water supply and sanitation, Housing and Urban Development	17185.03	10145.70	16516.23	-6370.53	-38.57	-40.96
of which, 4215 - Water Supply and Sanitation	8491.45	5628.86	9401.46	-3772.60	-40.13	-33.71
4216 - Housing	1532.01	454.52	0.00	454.52	#DIV/0!	-70.33
4217 - Urban Development	7161.57	4062.32	7114.77	-3052.45	-42.90	-43.28
Information, Publicity & Broadcasting	200.00	10.00	0.00	10.00	#DIV/0!	-95.00
Welfare of SCs, STs and OBCs	139.67	366.55	1608.81	-1242.26	-77.22	162.44
Social security and Nutrition	150.00	1081.49	2462.22	-1380.73	-56.08	620.99
Economic services	**60137.55**	**36921.26**	**53510.20**	**-16588.94**	**-31.00**	**-38.61**
Agricultural and allied activities	1161.26	653.47	1455.92	-802.45	-55.12	-43.73
of which, 4401 - Crop Husbandry	115.66	0.00	180.00	-180.00	-100.00	-100.00
4403 - Animal Husbandry	145.97	145.79	396.96	-251.17	-63.27	-0.12
4406 - Forestry and Wild Life	71.52	311.96	642.26	-330.30	-51.43	336.19
4408 - Food Storage and Warehousing	273.36	189.39	202.47	-13.08	-6.46	-30.72
Rural development	1600.88	20.89	237.16	-216.27	-91.19	-98.70
Special areas Programme	2248.61	2464.93	2510.83	-45.90	-1.83	9.62
Irrigation and flood control	425.30	115.48	1157.22	-1041.74	-90.02	-72.85
of which, 4711 - Flood Control	425.30	115.48	1157.22	-1041.74	-90.02	-72.85
Energy	3241.90	3749.69	8952.59	-5202.90	-58.12	15.66
Industries and minerals	705.77	61.95	1.95	60.00	3076.92	-91.22
of which, 4860 - Consumer Industries	555.77	61.95	1.95	60.00	3076.92	-88.85
Transport	24048.18	21021.13	26115.93	-5094.80	-19.51	-12.59
of which, 5054 - Roads and Bridges	23848.18	21021.13	26115.93	-5094.80	-19.51	-11.85
Tourism	26655.65	8833.72	13078.60	-4244.88	-32.46	-66.86

The decline in capital expenditure vis-à-vis the budget estimates, however, may not be all by design to achieve fiscal targets. The inability to spend the available funds, non-receipt of the entire central funds as budgeted, and late receipts Central funds in some CSS programmes are the major reasons for this shortfall. Some of the budget heads under capital expenditure indicate that budget estimates were based on several Central grants, NEC projects, and NLCPR components of DONER. Under many of these projects, funds were not received during the year for which the actual expenditure fell short of the budget estimates.

The predictability of availability fund has remained low. Further, the budget management system in the State has not been very efficient. Many spending departments also pointed out the fact that the State Government failed to provide the State's share in several CSS projects for which, the next installments of Central funds were not received. Given the requirement of infrastructure building in hilly State like Sikkim, forgoing large amount of Central funds due to non-provision of State share is a serious lapse in the budget management process.

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

6. Concluding Remarks

The fiscal year 2015-16 brought several challenges for the State of Sikkim. The changes in fiscal transfer system following the award of the 14^{th} FC and the removal of plan grants to the States had its repercussion on the State. 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 FFC 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. The fund flow mechanism got disturbed due to stoppage of plan grants to various programs.

The fiscal situation of Sikkim in 2015-16 shows a decline in revenue receipts as percentage to GSDP due to slide in Central transfers as compared to the previous year. The pressure on revenue receipts resulted in restricting revenue expenditure and decline in capital outlay. Own tax revenue grew by 7.44 percent and the own non-tax revenue increased by 27.56 percent over the last year. However, the higher growth seen in the case on non-tax revenue was more because of a lower base in the previous year. Despite large growth in tax devolution, from Rs.809 crores in 2014-15 to Rs.1870 crores in 2015-16, the overall Central transfers declined by 13.14 percent due to decline in grants.

Although, the State managed to comply to the FRBM fiscal targets, with marginally exceeding the fiscal deficit target, the fiscal management has entered into stressed phase. While low fiscal deficit and large unspent amount characterized the State finances in the previous years, it will be now a challenge to adhere to the fiscal deficit targets, even with the increased margin. The State needs to streamline the existing problems in the budget forecasting and implementing the programs, as alluded in the previous sections to make best use of public resources. The low resource base of the State has to be kept in consideration, while expanding the scope of programs. It is important to set the priority right and implement the policies efficiently.