CAPACITY BUILDING FOR FISCAL REFORMS IN SIKKIM

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Preface

The Asian Development Bank (ADB) funded Technical Assistance (TA) on Capacity Building for Fiscal Reforms in Sikkim was implemented by the National Institute of Public Finance and Policy from December 2004 to September 2005. The TA involved reviewing the fiscal and statistical system in the State, preparing the State for calibrating reforms in critical areas of fiscal policy, instituting systems and institutions and training of personnel for both implementing reforms and collecting and compiling the information system for carrying out reforms.

The TA was undertaken by a team of international and domestic experts. The experts worked in close collaboration with senior State government officials in implementing the TA. The execution of the TA required capacity building in the State while simultaneously carrying out reforms like in the case of implementing the Value Added Tax. It also envisaged setting up institutions and systems for medium and long term fiscal reforms.

We would like to place on record our appreciation to the State government officials with whom we worked closely in executing the TA. In particular, we are grateful to Mr. T.T. Dorji for sparing time to constantly interact with the team. The list of officials whom we interacted is given in the Appendix. We would also like to record our gratitude to the ADB and to Dr. Hiranya Mukhopadhyay in the ADB Resident Mission for providing the opportunity and giving periodic comments and suggestions on various reports submitted. We are also grateful to Mr. R. Parameswaran and Mr. N. Natarajan for constant help and support in preparing the report.

Capacity building for fiscal reforms or for that matter any reform is a continuous process. In the course of executing the TA, we have set up the base and provided the initial push for building capacity in the State. It is hoped that the State government will carry the effort forward to provide congenial environment, efficient and responsive institutions and competent and committed set of officials for carrying out fiscal reforms.

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Acronyms Used in the Report

ADB	Asian Development Bank
AIDIS	All India Debt & Investment Surveys
ASWPR	Age-specific-worker-population
BEL	Bharat Electronics Ltd.
BHEL	Bharat Heavy Electrical Ltd.
BPL	Below Poverty Line
BRO	Border Road Organization
C&AG	Comptroller and Auditor General of India
CBEC	Central Board of Excise and Customs
CEOs	Chief Executive Officers
CFC	Consumption of fixed capital
CIC	Community Information Centers
CPIAL	Consumer Price Indices for Agricultural Labour
CPIIW	Consumer Price Index for Industrial Workers
CPIMR	Consumer Price Index for Middle Rural Population
CPIMU	Consumer Price Index for Middle Urban Population
CPINM	Consumer Price Index for Non-manual Urban Population
CPITR	Consumer Price Index for Total Rural Population
CPITU	Consumer Price Index for Total Urban Population
CPWD	Central Public Works Department
CRF	Calamity Relief Fund
CRM	Customer Relationship Management
CSF	Critical Successful Factors
CST	Central Sales Tax
CTV	Colour Television
DCU	Departmental commercial undertakings
DESME	Directorate of Economics & Statistics, Monitoring and Evaluation
DPD	Data Processing Division
DPD	Data Processing Division
EFC	Eleventh Finance Commission
EMBO	Employee and management buy out
EOI	Expression of Interest
FCI	Food Corporation of India
FOD	Field Operations Division
Fsu	First stage units
GFCF	Gross Fixed Capital Formation
GFPF	Government Fruit Preservation Factory
GIS	Geographical Information System
GOI	Government of India
GoS	Government of Sikkim
GPF	General Provident Fund
GSDP	Gross State Domestic Product
HCES	Household Consumer Expenditure Surveys
HCR	Head Count Ratio
HDI	Human Development Index
HDR	Human Development Report
HMT	Hindustan Machine Tools Ltd.
IAS	Indian Administrative Service
ICMR	Indian Council of Medical Research
IDBI	Industrial Development Bank of India
IFIs	International Financial Institutions
IMFL	Indian Manufactured Foreign Liquor
IT	Information Technology

Kcal	Kilo calorie
Kmpl	Kilometers per liter
LB	Labour Bureau
LIC	Life Insurance Corporation
MIS	Management Information System
MLA	Member of Legislative Assembly
MoU	Memorandum of Understanding
MPCE	Monthly per capita expenditure
MRP	Mixed reference period
MTPA	Medicine and Toilet Preparation Act
MV	Motor vehicles
MW	Mega Watts
NABARD	National Bank for Rural Development
NAD	National Accounts Division
NCDC	National Co-operative Development Corporation
NDCUs	Non-departmental commercial undertakings
NEC	North Eastern Council
NFCF	Net fixed capital formation
NH	National Highway
NHPC	National Hydro Power Corporation
NIPFP	National Institute of Public Finance and Policy
NIC	National Informatics Centre
NPAs	Non-Performing Assets
NSSO	National Sample Survey Organization
O&M	Operation and maintenance
OBCs	Other Backward Castes
OPTIMA	Optimum Performance through Internal Management System
PC	Planning Commission
PDS	Public Distribution System
PEs	Public Enterprises
PHC	Primary Health Centre
PHE	Public Health Engineering
PHSC	Primary Health Sub-Centre
PPP	public-private-partnership
PPS	Probability Proportional to Size
PRI	Panchayati Raj Institutions
PSUs	Public Sector Undertakings
PWD	Public Works Department
RAC	Committee on Regional Accounts
R&D	Research & Development
RBI	Reserve Bank of India
RC	Restructuring Cost
RE	Revised Estimates
RTC	Road Transport Corporation
SAIL	Steel Authority of India Limited
SABCCO	Scheduled Caste, Scheduled Tribe, Other Backward Class Development Corporation Limited
SBS	State Bank of Sikkim
SBU	Strategic business units
SCs	Scheduled Castes
SDP	State Domestic Product
SDRD	Survey Design & Research Division
SGSY	Swaranjayanti Gram Swarozgar Yojana
SHL	Sikkim Hatcheries Ltd.
SIDBI	Small Industries Development Bank of India

SIDICO	Sikkim Industrial Development and Investment Corporation Ltd.
SIMFED	Sikkim State Co-operative Supply and Marketing Federation Ltd.
SISCO	Sikkim State Co-operative Bank Ltd.
SITCO	Sikkim Time Corporation Limited
SIU	State Income Unit
SJL	Sikkim Jewels Ltd.
SLPDC	Sikkim Livestock Processing and Development Corporation
SLPEs	State Level Public Enterprises
SMC	Sikkim Mining Corporation
SNT	Sikkim Nationalised Transport/State Nationalised Transport p.229
SPCIL	Sikkim Precision Industries Limited
SPDC	Sikkim Power Development Corporation
SPDCL	Sikkim Poultry Development Corporation Ltd.
SPIL	Sikkim Precision Industries Ltd.
SRSWR	Simple random sampling with replacement
SRSWOR	Simple random sampling without replacement
SRTU	State Road Transport Undertaking
SS	Stainless steel
SSNP	Social safety net programme
Ssu's	second stage units
ST	Sales Tax
STs	Scheduled Tribes
STC	State Trading Corporation
STCS	State Trading Corporation of Sikkim
STDC	Sikkim Tourism Development Corporation
SWOT	Strengths, Weaknesses, Opportunities, and Threats
TA	Technical Assistance
T&D	Transmission and Distribution
TDS	Tax Deducted at Source
TfFC	Twelfth Finance Commission
TGR	Trend growth rate
TOR	Terms of Reference
TOT	Turn over tax
TF	Task Force
UPA	United Progressive Alliance
URP	Uniform reference period
USA	United States of America
VAT	Value Added Tax
VRS	Voluntary Retirement Scheme
VSNL	Videsh Sanchar Nigam Limited

Executive Summary

Capacity Building for Fiscal Reforms in Sikkim

A. Introduction:

Sikkim, a small principality nested in Himalayas acceded to the Indian Union in 1975. In the years that followed, the state has made remarkable progress in establishing systems and institutions, and in building administrative capacity. Despite this, the capacity of the state to design and implement fiscal policies and to undertake prudent fiscal management is limited. Establishment of institutions, creating enabling environment and building human capacity to implement policies in the State's domain are extremely important for accelerating growth and reducing poverty in the state.

The need for strengthening the capacity for calibrating fiscal policies in the state arises for a variety of reasons. First, developmental challenges in the state have become more complex over the years and the state must acquire the basic capabilities for calibrating policies. Second, implementation of fiscal restructuring programme recommended by the Twelfth Finance Commission (TFC) involves substantial strengthening of the state administration to effectively undertake fiscal management. Third, the decision to levy value added tax (VAT) by the state with effect from April 1, 2005 has necessitated creating the entire institutional, legal and administrative structure to implement this tax. Fourth, the existing government structure is top heavy and needs to be geared to improve efficiency. Finally, the state suffers from virtually non-existent information system, and where it exits, poor quality information and data hinder policy calibration.

B. Objectives of the TA:

The Technical Assistance (TA) on 'Capacity Building for Fiscal Reforms in Sikkim' sponsored by the Asian Development Bank was initiated from December 2004 to undertake an in-depth review of the existing systems and institutions and recommend policies and arrangements to enhance the capacity of the State to prudently manage its public finances. Specifically, the TA was expected to address the capacity development for calibrating the tax system, expenditure management and functioning of Public Sector Undertakings. The TA was also required to build foundations for creating the basic management information system for planning and its implementation. Besides, it had to augment the capacity to conduct surveys to periodically bring out the poverty profile in the State. Furthermore, it was expected that the officials of the state government should be adequately trained in fiscal management.

The report has dealt with both the immediate requirements of the state and medium and long term requirements of capacity development. Preparing the state to replace the existing cascading type sales tax with the VAT was an immediate requirement. Similarly, building capacity for strengthening the data and information system by providing short term training to the officials of the Directorate of Economics and Statistics in poverty estimation, and in the estimation of savings and capital formation also had to be undertaken with urgency. The medium and long term measures meant undertaking a more detailed survey of the needs for enhancing the capacity for fiscal policy calibration and creation of a road map specifically tailored to the requirements of Sikkim. Thus, the report is at once a statement of the progress made in selected areas, and is also an action plan for addressing the broader institutional, systemic, and operational aspects of formulation and implementation of fiscal policies.

C. Government Finances: An Overview

Government finances of Sikkim are heavily dependent on central transfers. Indeed, central transfers account for more than a half of the state domestic product. Like in other states, the fiscal health in Sikkim too deteriorated significantly during the concluding years of the last decade. The principal reasons for this are, (i) adoption of central pay scales for the state government employees irrespective of paying capacity, (ii) deceleration of own tax revenue growth on account of industrial recession; (iii) shortfall in central transfers; and (iv) growing debt servicing burden.

The Government of Sikkim has taken several measures to deal with fiscal stress which include (i) freezing of fresh recruitment; (ii) introduction of VRS on a selective basis; (iii) restructuring of public enterprises; and (iv) improving tax and non-tax revenue efforts. These steps, however, had only a limited impact on the overall finances of the state. If the present trend continues, the state government will not be able to achieve the financial targets of the Tenth Plan.

The growth of salary expenditure in Sikkim was the highest among the states during the last decade. In fact, the State had the dubious distinction of doubling the salary expenditure in 1998-99, the year in which pay revision was carried out. While a state like Sikkim, which has limited employment opportunities outside the Government will continue to have pressure on government employment, the logic of high average salary expenditure is difficult to explain, much more difficult to justify.

A comparative picture of TFC recommended transfers to Member States of the North Eastern Council shows that Sikkim gets the lowest amount of non-plan revenue deficit grant of Rs. 188.67 crore for the five year period. This is due to some measures of overestimation in revenues and underestimation in expenditures by the Finance Commission. The overestimation in own revenue projection arises from assuming that the high growth rates of the past five years will continue. Similarly in the case of non-tax revenues, the high base of net receipts from lotteries in 2002-03 has contributed to overestimation. This is likely to add to the fiscal stress of the state.

Baseline Scenario

Under the baseline 'business as usual' (BAU) scenario, it will not be possible to create fiscal parameters that will conform to any fiscal responsibility legislation. In this scenario, the State will not maintain the revenue surplus of the base year in none of the subsequent years. Thus, to maintain the past growth of capital outlay during the TFC award period, the state will have to increase fiscal deficit significantly unless some appreciable reform measures are undertaken. This underlines the importance of undertaking reforms in both revenue raising and expenditure compression and reallocation.

Fiscal Reforms

The proposed fiscal reforms in Sikkim involve the following:

- Introduction of value added tax (VAT) with effect from April 2005.
- Reform of Sikkim Income Tax Act 1970.
- Rationalisation of structure and operation of other important State taxes.
- Improving non-tax revenues especially by reducing subsidies to power and transport sectors. This has to be achieved mainly by improving the operational efficiency of these departments and partly by raising user charges.
- Restructuring and reforming State Enterprises. Closing down or privatising enterprises which are loss making and not serving any significant social objectives.
- Securing economies in government expenditure while improving the capacity of the government for policy making and delivery of services.
- Making adequate provision for non-wage O&M expenditures.
- Discontinuing the past practice of regularising work-charge and muster roll workers. Outsourcing feasible activities.
- The overall revenue expenditure of the government should come down to about 50 percent of the GSDP in the medium term as compared to 55 percent in the base year.

Reform Scenario

Under the recommended reform scenario, the total revenue expenditure relative to GSDP will come down from 55 percent in the base year to 51 percent in the terminal year of the forecast period. The compression of revenue expenditure more or less balances the reduction in revenue receipts due to lower non-plan grants. Consequently, revenue surplus will remain more or less constant throughout the forecast period and the condition associated with the proposed fiscal responsibility legislation - of maintaining the revenue surplus during the forecast period will be satisfied. Outstanding debt-GSDP ratio will come down from 73 percent in the base year to 60 per cent in the terminal year assuming that capital outlay will grow at 12 per cent.

D. Important Capacity Building Initiatives:

(i). Capacity building for Value Added Tax:

An important term of reference in the TA related to the (i) preparation of detailed VAT implementation plan addressing the concerns of various sectors including retail businesses; (ii) prepare the VAT law suiting to the conditions prevailing in Sikkim based on the model law prepared by the central government; (iii) prepare the administrative restructuring plan encompassing computerization of the department; and (iv) design and deliver the training program for VAT collectors and identify appropriate short term training program for the training of trainees.

The introduction of VAT reform coincided with the TA and, therefore, capacity building had to be synchronized with the calibration of reforms. Thus, the most important aspect of the TA in regard to VAT implementation was that there was no lead time whatsoever and the expert team had to work closely with the tax department to implement the VAT by April 1, 2005.

The structure of VAT evolved though consensus in the Empowered Committee of State Finance Ministers had to be adjusted to suit particular situation in Sikkim. A series of training programmes for the officials of the department and in other departments related to the structure of VAT, its administration and accounting aspects were conducted. The basic training programmes were conducted before the VAT introduction and the training programmes relating to accounting, auditing and risk assessment were undertaken immediately after the introduction. In this task, the National Informatics Centre (NIC), which is entrusted with the task of computerization of tax administration in Sikkim was also involved in the training. In addition to the training programmes, a series of awareness programmes for the members of trade and industry, industry associations, Ministers in State Cabinet, senior officials of the State government and prominent citizens of the state were conducted in various parts of the state. This has helped to gain better understanding of the operation of the tax. The TA also involved drawing up the organizational restructuring plan on functional lines.

(ii). Reform of other state Taxes

There are a number of problems associated with the income tax in Sikkim. The structure is not progressive and does not confirm to basic canons of the tax system. It has the potential to distort economic decision making especially in production and trading activities. A major problem relating to this tax is its presumptive nature and on businesses, the tax is nothing but a turn over tax. Continuation of TOT when VAT is levied is an aberration. There are advantages in implementing central income tax in Sikkim. The tax can be made more progressive, there would be revenue gains in the long run, and low income Sikkimese will get significant relief. Even if the State laws are to continue, immediate attention needs to be given to removal of TOT and make the tax system more progressive.

The report has made detailed recommendations for the reform in the structure and operation of other important state taxes such as excise duty on alcoholic products, motor vehicles tax and stamp duties and registration fees. Implementation of these recommendations could improve the revenue productivity of the tax system.

(iii). Reform of Non-tax Revenue

Non-tax revenue in States comprise of receipts such as interest receipts on loans given by the state government, dividends on equity investments, user charges on services provided by the governments that spans over social and economic sectors, royalty on mines and minerals, receipts from forestry and wild life, lottery income and other miscellaneous receipts. In Sikkim, in addition to these sources of non-tax revenue, receipts from power and transport sectors are also classified under non-tax revenue as these are managed by government departments. Low user charges have affected the cost recovery resulting in significant implicit subsidies. The proliferation of subsidies in various sectors has adversely affected the quality of government services and the people who solely depend upon it. One important feature of non-tax revenue in Sikkim is the significance of income from lottery, which is not a stable source of revenue. Most PSUs in the state do not remit any dividends. The average effective return from the government investments during the last four years works out to a mere 0.89 percent. The TA has examined in detail the various reform options for improving efficiency, enhancing user charges, closing down and privatizing identified enterprises in the state.

(iv). Expenditure Management and Budget Making:

Subnational public expenditure policy should conform to the objectives of macroeconomic stability and ensure allocative and technical efficiency in spending. The TA has identified a number of problem areas in Sikkim. In general, the prevailing system focuses on the application of financial and legal controls in the collection and disbursement of monies. Not surprisingly, the budget has become a weak link in policy planning and in the overall management of the economy.

The annual budget process is too traditional, inadequate for the purposes to be served, and is in dire need of improvement. The major problems are: (i) The schism between Plan and non-Plan approaches is deep rooted that it segments the budgets and prevents a holistic view; (ii) The circulars are routine in nature and do not illumine the economic conditions forming the backdrop for the annual budget, nor does it identify the areas where economies are to be procured or the steps being taken or proposed to be taken leading to an improvement in the delivery of services; (iii) The budget review is based on running outlays in terms of norms, and usually adjustments are made at the margins; (iv) Guidelines for the formulation of project estimates are either circumvented or are not adhered to, and contracted prices tend to be vastly different from the estimates made in-house; and (v) Control of staff is partly centralized and partly decentralized.

A major choice in the improving the fiscal management capacity relates to the strengthening of the administrative process and enactment of legislation. A complementary requirement is the preparation of the improvement of budgetary process in terms of three stages– medium term budgeting; formulation of estimates (revenue and expenditure), and the budgetary process itself. The TA deals in considerable detail all the aspects of expenditure management and control systems – both internal and external. The TA undertakes a detailed analysis of four areas, viz., policy, personnel, poverty alleviation programmes and public works and makes detailed recommendations for improving the design and implementation policies and strengthening the capacity of the government to calibrate fiscal reforms.

(v). Responsive and accountable institutions

Revamping administrative machinery to make them responsive and accountable is an important component of capacity building reform. In reorganizing the administrative structure, it is important to keep in view the following: (i) with the full implementation of the 73rd amendment of the Constitution, *albeit*, in a phased way, more and more tasks will be devolved to the district level of administration; (ii) The excessive fragmentation and layering should be avoided and levels of processing of subjects should be reduced to the minimum; (iii) The establishment of Gangtok as a Municipality would lead to the transfer of work to a lower level; and (iv) gradual introduction of e-governance in several fields and the administrative processes need to be abridged. Accordingly, a new departmental structure has been formulated that envisages a consolidation of 42 departments into 15 without any loss of efficiency. This should, however, be undertaken in a phased manner. In doing so, computerization should be progressively introduced.

(vi). Restructuring Public Enterprises

The State Level Public Enterprises (SLPEs) are an important component of the economy of the State of Sikkim. 22 SLPEs covered in this study had an investment of Rs 726.06 crore as on March 30, 2004. The financial performance of the SLPEs was discouraging in that in aggregate terms, they registered accumulated losses to face capital erosion. Analysis of the management and operations of the SLPEs reveals that: their social purpose is very low; departmental enterprises dominate the investment scenario; the utility enterprises have a major chunk of investment; their wage cost is very high; no R&D facilities exist in these enterprises; no financial and management systems are in vogue; strengths are far less as compared to weaknesses and so is the case between opportunities and threats; government - enterprise interface is very low; and most of the enterprises have not formulated performance improvement plans.

Detailed analysis of 22 enterprises has helped to draw up a plan of restructuring. The enterprises which are of promotional and welfare oriented could continue but their focus should be on promotional and welfare activity. Enterprises which are best run by the private sector should be privatized. Enterprises provided public utility services need to be corporatised. In cases the recommendation is to continue, there is need to make these into professional organisations and not employment creating agencies. The report makes specific recommendations on the reform of each of the enterprises and also recommendations on enterprise specific micro restructuring plans.

(vii). Capacity building for Statistical System

The data base for economic policy making is the responsibility of the State Statistical Cadre of about 140 officials. Except for a few, every department has a statistical cell. The Department of Economics, Statistics, Monitoring and Evaluation (DESME) is vested with the responsibilities *inter alia* of estimating state income, conduct of sample surveys and collecting data on prices. The nature of work in other departments is by and large limited to compilation of data and cadre officials are mostly engaged in activities such as correspondence, file dealings and progress reports. Since long there are no direct recruits to the cadre and the posts are filled up through promotion. There is an urgent need to review of the cadre and bring in qualified personnel to build capacity.

The role of DESME in this scenario is of utmost value in the sense of not only effective coordination but to do justice to the three main activities mentioned. The report brings out several serious shortcomings in the functioning of the department. At present, the capacity of the Department to collect data on professional manner is limited and these not are effectively used to generate the information needed for planning.

(viii). Estimating Poverty: Critical Issues

An important strategy adopted in building the capacity of the officials of the DESME was to work with them in analysing the data from the state sample of NSS consumer expenditures to estimate poverty in the state. The consultants worked closely with the officials to estimate poverty in the state. It is strongly recommended that a select few qualified cadre officials should be sent to the Labour Bureau for training in their methodology of estimating the cost of living.

An important component of the capacity building was the two training programmes conducted for the benefit of the state officials. The first was designed to provide the basics of sampling and household surveys with particular reference to HCES. The second was designed to familiarize the trainees with the rudiments of concept of poverty and its measurement. The focus was on the exposition of the official method adopted by the Planning Commission, followed by the implications of proxy estimation and the reasons why Sikkim even after decades does not have a poverty line. Looking at these specialized training courses it was felt that statistical officials, assistant directors and senior officers should have basic training in statistics, NSS surveys, sampling theory and applications, report writing and computer processing of data.

(ix). State Income, Capital Formation and Saving

The estimate of state domestic product (SDP) is the foundation for estimating saving and capital formation. The available estimates of SDP at the beginning of the project showed abnormal growth since 1993-94. Preliminary review indicated that the standard methodology recommended by the Central Statistical Organization (CSO), was not being followed appropriately in some cases. As an integral part of the effort devoted to the compilation of SDP data, estimates are also compiled for capital formation and saving.

Under the TA, estimates of State Domestic Product of Sikkim at current and constant prices have been thoroughly revised and the Manual on Estimation of Capital Formation has been prepared. Preliminary estimates as per the concepts and the suggested methodology have been compiled by the SIU for 1999-00 to 2000-01 separately for the public sector as well as for the whole economy. The Methodology for the estimation of saving has been suggested though, so far, no state has been making such estimates.

E. In Conclusion

The TA has helped to strengthen the prevailing systems and institute new systems where none existed for scientific fiscal management in the state. This has also provided the much needed training programme and indicated where further efforts at building capacity need to be focused on. It has not only helped the state to gear up to the challenges of undertaking short term reforms but also has established a base for carrying out the capacity building initiative further. The TA was implemented not merely with the objective of completing the tasks assigned but to walk with the state government departments as partners in building systems, institutions and training the personnel.

It must be mentioned that any capacity building TA can only establish the base and address the immediate capacity requirements of the state government. Capacity building is a continuous process and will have to be augmented to deal with changing situations and technology. It is in this regard the recommendations made in the report for augmenting the capacity of various aspects of administration are relevant. The consultants have helped to create a base and the report provides a clear road map for future. We are sure that the well meaning and inherently competent officials of the state with enlightened political leadership will take this reform forward.

1. Introduction

1.1 Introduction

The Technical Assistance (TA) funded by the Asian Development Bank, for 'Capacity Building for Fiscal Reforms in Sikkim' was implemented from December 2004. The Project's mandate was to undertake an in-depth review and recommend policies and institutional arrangements relating to the management of the public finances in the state and related supporting administrative structures. More specifically, it was expected that the tax structure, expenditure management system, functioning of the Public Sector Undertakings, as well as the statistical infrastructure relating to the estimation of saving and capital formation in Sikkim, and consumption expenditure surveys for the estimation of poverty profile in the State were required to be reviewed in detail. As a part of the study, the issues, whether of a policy or systemic or operational nature were to be identified and a road map containing the next steps was to be prepared; further, where necessary, immediate assistance was to be extended to implement the reforms and to provide training to the operational officials in selected areas.

In pursuance of the above objectives, a team was formed comprising the following members: A. Premchand (Team Leader), Pratap Ranjan Jena (Deputy Team Leader), M. Govinda Rao[1] (International Value Added Tax Expert), N.J. Kurian (International Public Finance Specialist), R.K. Mishra (Public Enterprise Restructuring Specialist), S.K. Sanyal (Sample Survey Expert) and R.P. Katyal (State Income Estimation Expert). The Team visited Gangtok in two stages. During the first stage (December 2004-January 2005), the team held meetings with the concerned senior officials to discuss various operational issues, collected a good deal of data, and agreed on a program relating to the immediate steps to be taken for the introduction of Value Added Tax in Sikkim, and for training officials of the Tax Department. In addition, it was also agreed that the officials of the Directorate of Economics and Statistics should be given immediate training in the organization of Sample Survey and in the estimation of saving and capital formation in Sikkim. During discussions organized as a part of the first visit, it became clear to the team that there was need for a two-pronged approach:- (a) immediate efforts should be made to the drafting of the requisite legislation relating to the introduction of the Value Added Tax (which had deadlines), as well as training of officials of the Tax Departments in the structure and operation of VAT, and organizing short term courses for officials of the Directorate of Economics and Statistics in Sampling Surveys and associated matters; and (b) a detailed survey of the policy, institutional and systemic aspects of the management of Sikkim's public finances. The legal expert who accompanied the team was asked to address the immediate task of drafting the VAT bill for

[1] Assisted by B.R. Atre (Legal Expert)

approval by the State Legislative Assembly. He also set about drafting a VAT rules. As capacity building in this area has to be done alongwith the introduction of the tax, the activity had to be compressed and co-ordinated with the reform itself.

Following the first visit, an inception report was submitted to the State authorities as well as to the Asian Development Bank. During the second visit assistance was provided in the processing of the legislation relating to VAT (the legislation has became operational from April 1, 2005) and a series of training programmes were conducted for the officials of Tax Department, including awareness programmes and seminars for Ministers and senior officials as well as representatives of the local trade and industry associations and general public. (The Seminars were organized by M. Govinda Rao and he was assisted by a group of experts including Kavita Rao and Pinaki Chakraborty). Courses were also conducted for the officials of the Directorate of Economics and Statistics. Further, members of the Team were engaged, during the second visit, in the collection of data and their analysis.

During all the phases of its work, the Team was accorded all facilities and was a number of documents were furnished. Discussions during meetings were cordial, frank and insightful. In some cases, particularly in calibrating VAT reform the officials collaborated actively with the experts. The Team wishes to place on record its deep gratitude and appreciation of the assistance extended by the Sikkimese authorities. A list of Meetings organised is provided in Appendix 1.1.

1.2 Scope and Structure of the Report

The report has two objectives – (a) to describe the way in which attention was paid to the immediate issues, viz., introduction of VAT in the State, and providing short term training to the officials of the Directorate of Economics and Statistics in poverty estimation, and in the estimation of savings and capital formation and how substantial progress was made in both areas through assiduous efforts as a part of this project. Capacity building in VAT had to be coordinated and compressed with the introduction of tax itself. In fact, the reform and capacity building in administering VAT had to go hand in hand as there was hardly any lead time for this report; and (b) to undertake a more detailed survey of the needs of fiscal capacity enhancement and the formulation of a road map specifically tailored to the requirements of Sikkim. Thus, the report is at once a statement of the significant progress made in selected areas, and is also a plan for addressing the broader institutional, systemic, and operational aspects of formulation and implementation of fiscal policies.

Accordingly, the report is devoted to a detailed discussion of the themes and issues relating to the capacity to undertake relevant fiscal adjustments in Sikkim. As an integral part of this approach, the policy, institutional, systemic and operational aspects of fiscal management are considered. In each area, the effort is to identify the issues, and to delineate the need and rationale for change as well as the content of adjustment. The coverage includes a detailed analysis of public finances including the performance of public sector undertakings, as well as an examination of the human resource constraints and a discussion of the ways in which these constraints may be addressed.

The report is divided into five parts. In the first part, the scope of capacity building in fiscal management – its contents and problems and why and how they may be addressed – is discussed. Part II is devoted to a discussion of the state of public finances, past experience and outlook are considered. Part III deals with the expenditure management and supporting structures comprising institutions, systems and operational processes. The Part IV deals with public sector enterprises in Sikkim and various options of restructuring. The concluding part deals with the ways in which the statistical skills of government employees may be enhanced. Each part and its contents, are so arranged as to permit a detailed enquiry into each area as a self-contained subject in itself and in relation to other areas. In each of these parts, the preparatory work undertaken to introduce VAT and to provide training for tax officials and to organize related training programmes is described. Similarly, the progress made in organizing training programmes for officials of the Directorate of Statistics is indicated in some detail.

1.3 Issues in Fiscal Consolidation in Sikkim

In the overall management of Government, fiscal policy has a crucial role to play. Governments are organized primarily for the purpose of providing services that are not otherwise available in the market. They may also be engaged, depending on the political ideology of the party in power, in providing services to the vulnerable sections of the community at below market prices even when such services or goods are available in the market. Such provision involves incurring of expenditure by governments. They also have a role in ensure a fair state of distribution of incomes and wealth in society and eliminate poverty. This requires them to designing and implementing appropriate tax and transfer policies. Given that all policies of government have some financial implications, the financing of those expenditures and the determination of what to spend them on and how and when to spend them become matters of considerable importance. The provision of goods and services to the community implies that there are right policies, policy making processes and supporting administrative structures comprising institutions, organizations, and operational systems in place that facilitate both the formulation and implementation of policies. These aspects refer to the broad phenomenon of capacity in the government, as well as outside so that governments could use the external resources when needed. The capacity also assumes that the appropriate personnel, in the form of well trained officials, are available to manage the overall system.

Fiscal policies aim at achieving a balance in the allocation of resources between the government and private sector, a balance in the allocation of resources between the various layers of government and among the functions, programmes, and activities of government. In achieving this balance, due attention is needed to be paid to considerations of equity and efficiency, while facilitating the generation of adequate employment opportunities. The emphasis on quantitative aspects is generally tempered by an explicit recognition of qualitative aspects too. Thus, the provision of services has to be done in such a manner as to fulfill time, cost, and quality considerations, and adequate attention is required to be paid to the full utilization of benefits sought to be created through government policies and programmes.

Building capacity for fiscal reforms cannot be a static phenomenon; rather, it is always changing and adjusting in response to the dynamics of needs, requirements and aspirations. These changing requirements need to be identified in a timely fashion and appropriate policies formulated and implemented. Often, there may not be any lead time to plan, strategise and implement building of capacity. It may be necessary to undertake capacity building simultaneously as the reforms in the policies are calibrated as it has happened in the case of introduction of VAT in Sikkim. In reality, the responses may not always be timely and there may be long lags in the identification of problems and in the implementation of policies. The lags, as well as the content of policies, not to mention the abuse of discretionary decision making, may contribute to distortions and the benefits proposed to be provided to the community may suffer adverse cost escalations and have unintended consequences. Some of these distortions may be further exacerbated by two factors – non-availability of well trained officials, and the absence of a well developed consultation process and a communication system between the central and sub-national governments. In building capacity, the government should consider that administering each department has to achieve a certain degree of complexity. This is more in some and less in others. It is necessary to consider that building fresh capacity is not easy and therefore frequent transfers from one department to another should be avoided.

The general technological context within which governments work is frequently subjected to major changes. Technological innovations offer immense benefits to governments and these often take place without any effort on the part of the government. Being at the receiving end, governments are obliged to take advantage of those innovations and improve their administrative capacities. In all these phases, governments, as the biggest organizations, have to ensure that there is continuity, but that there is also the required change and continuous adaptation to the changing requirements. The price of non-adjustment is backwardness.

Calibrating fiscal policies in a country or a state has to stand on tripod of architecture, engineering and management. Architecture deals with the design of policies and engineering its various mechanics. Both these depend on the ability to manage or implement them. Fiscal policies, however well designed cannot be implemented unless there is a good capacity to calibrate and manage them. In fact building management capacity is critical to reform and even the design of the reform should be drawn up depending on the ability to implement them.

The need for a review of the capacity building, and appropriate strengthening, arises for a variety of factors in the case of Sikkim. While these factors vary, depending on the situation and the State or country that is being examined, in Sikkim, the following four groups merit explicit recognition.

- **Inherent compulsions:** During the last four decades, Sikkim has gone through a series of major institutional changes – from a monarchy to a democratic government, from a maintenance stance to a growing emphasis on economic development, from a relatively simple administrative system to a complex one where the structures and number of administrative agencies have grown and there has been expansion in the activities including commercial and manufacturing areas. The process of expansion, however, was not based on any well articulated design or programme (as will be discussed in some detail in later sections) and was, in general, ad hoc, without taking into account the long term implications for the eventual form of government. This factor has been explicitly recognised by the authorities and some measures were taken to contain the size of the government. As an integral part of this effort, recruitment of additional staff was stopped, and various schemes were introduced to facilitate voluntary exit from government service. Their impact on the structure and systems of government has not been a durable one.

  It would also appear that while the general governmental structures received some attention, capacity to calibrate fiscal reforms or those relating to the pursuit of fiscal policies have not been given the attention due. As a result, there have emerged some distortions in the patterns of resource mobilization and in their effective use. More specifically, the pattern of decision making in a state that is significantly dependent on Central transfers has never been subjected to any serious analysis in terms of its impact on the fiscal capacity.
- **Implications of the Twelfth Finance Commission's recommendations:** Apart from the devolution of resources to the State government, the Twelfth Finance Commission (TfFC hereafter) has also made a series of recommendations that have profound and enduring implications for the fiscal administration at the sub-national level (see Annexure 1.1). The Commission recommended that State governments be enabled to go to the market directly for meeting their borrowing requirements. In due course, the market will bring to bear its discipline on the status of public finances in the States, and on the supporting administrative systems. As a natural extension of this process, the State governments would be obliged to maintain prudent finances as failure to do so would entail higher borrowing costs. The finances would be subjected to greater public scrutiny and in the not too distant future, would

be rated by credit agencies. At a systemic level, State governments may have to organize systems for the maintenance of public debt registers that would also be audited. Also, the Commission recommended that each state government should pass the Fiscal Responsibility Act to avail the benefit of debt restructuring plan recommended by it.

The Commission also recommended that accrual accounting be introduced, in a gradual way, in all governments and pending the full transformation from cash based system to a commitment or accrual based, that several analytical statements be prepared and included in the public financial documents. It also recommended that a uniform budget (and consequently accounting) classification be introduced. The implementation of these recommendations in turn involves substantial strengthening of the existing fiscal administration system in Sikkim.

- **Tax Administration for VAT:** The decision to levy value added tax by the state with effect from April 1, 2005 has necessitated building the entire legal, institutional and management structure to implement this tax. Thus, the state government has to create a legal framework, modern administrative set up equipped with an understanding of the mechanics of VAT, its accounting system, administration information system and enforcement mechanism. The critical issue in this is that the capacity building has to proceed as the introduction of VAT is calibrated. There is no time for preparation, strategizing and very limited possibility of sequencing the creation of legal and administration framework.
- **Public perception:** While there are no systematic surveys of public opinion, discussions both within and outside government circles point to the perception that government is top heavy, that this top heaviness has not translated into improved efficiency and that the element of waste is extensive in government programmes. Regardless of the validity of such perceptions, they have an immense impact on the credibility of government. Meanwhile, government's own efforts to shore up the system here and there, seem to be validating the general perceptions, contributing in turn to a steady erosion in the credibility of governments. Immediate steps are indicated to stem that erosion.
- **Approaches to IFIs:** The full implementation of the recommendations of Tf.F.C. would hereafter lead to direct transmission of funds from the International Financial Institutions rather than being routed through the Central budget as was the case before. This procedure could contribute to a greater direct involvement of the IFIs in terms of the scrutiny of public finances, and monitoring the intra-year developments therein. Both the original conditionality and the subsequent monitoring in the case of assistance from IFIs would involve, either as a condition precedent or as an integral part of loans, substantial strengthening of the governmental capacity in general, and fiscal capacity in particular. It is appropriate to anticipate their approaches and take up house cleaning before it is insisted upon as a part of conditionality.

In undertaking a review of the prevailing capacity to calibrate fiscal policy in the state and in enhancing its level, the objectives of fiscal policy – equity, efficiency, reduction of distortions in tranbsfering resources from the private to the public sector, ensuring its efficient use in terms of economical and timely delivery of services and facilitating the full utilization of services are to be constantly kept in view. In the following pages, the policy and systemic aspects (including human resource development and application of computer technology) are reviewed, issues identified, and recommendations are made. Some of them lend themselves to immediate implementation while some can be implemented only over a period of time. Some areas may require additional medium term support in the form of resident experts.

The strategy of approach specified in the report for the enhancement of the capacity to undertake fiscal reforms in Sikkim is comprehensive. The implementation requires a good deal of educational effort, sustained political leadership, and uninterrupted support from international financial institutions. While these considerations are true in all cases of institutional development, they have a particular relevance for Sikkim. The benefits that will accrue from the proposed reforms may not always be evident to the vital segments of the community or even to some sections of the vast range of government employees. This problem can only be addressed through educational effort aimed at creating an awareness of the issues and the need for a quest for alternatives. Indeed, it is as a part of the recognition of this aspect, that the team conducted, among others, awareness seminars about the VAT to the public.

Reform of governmental institutions and related administrative process is, even at the best of times, not an easy process. The comfort drawn from the status quo may, in some situations, contribute to apathy on the part of the stakeholders and stockholders. In part, such apathy may also have its origins in the series of failed efforts before, in the accumulation of unimplemented reports prepared by commissions and consultants, and the absence of clearly identifiable benefits. Even where reform is successfully undertaken, the public may not perceive the benefits, as they may largely be internal to governments. For this reason, it is imperative that the benefits as well as the costs of the approach recommended in the report are explicitly recognized. The groups that may adversely be affected through administrative reorganization (including divestment) should be recognized and a continuing dialogue between the Government and the affected sections is undertaken so that the process of implementation is not adversely affected.

In the above phases, the international financial institutions should be willing to provide uninterrupted support. Interruptions tend to create more distortions and the achievement of the specified objectives may be rendered moot. The importance of continuous support cannot be overstated. The areas where such support may be needed are indicated in the report.

2. Government Finances: An Overview

2.1 Trends in Government Finances

Sikkim is the smallest state of the Indian Union in terms of area and population with a geographical area of 7112 sq. kms and population of 5.4 lakhs according to 2001 census.

The government finances of Sikkim are heavily dependent on federal transfers. Indeed, the central transfers account for more than a half of the state domestic product (Table 1 and Annexure 2.1). State finances underwent a significant deterioration in all the States during the concluding years of the last decade and Sikkim was no exception to this. The principal reasons for this are four, viz., revision of pay scales for the state government employees following the Central pay revision irrespective of paying capacity, (ii) deceleration of own tax revenue growth on account of industrial recession; (iii) shortfall in central transfers; and (iv) growing debt servicing burden.

Table 1 Important Indicators of Fiscal Performance as % of G.S.D.P.

Item	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05 RE
Fiscal Deficit	-10.12	-10.29	-18.78	-11.02	-5.17	-5.87	-0.79	-3.70	-3.91
Revenue Deficit	7.01	6.34	-7.03	0.22	10.17	12.55	15.82	11.80	12.26
Primary Deficit	4.15	4.01	12.07	2.93	-2.89	-1.52	-6.37	-3.11	3.91
Total Tax	18.68	17.88	17.77	17.69	14.09	14.50	14.60	16.22	15.52
Own Tax	5.41	5.61	5.98	5.84	6.70	7.06	8.43	7.95	8.28
Share in Central Taxes	13.27	12.27	11.79	11.85	7.39	7.45	6.17	8.27	7.24
Own Non-Tax	7.12	6.61	5.49	7.71	6.72	6.24	11.46	7.00	7.16
Grants-in-Aid	40.71	38.90	35.91	38.15	44.65	45.10	46.51	42.97	44.34
Plan Grants	32.07	33.24	33.06	36.23	29.46	32.87	29.42	31.89	46.02
Non-plan Grants	8.64	5.66	2.85	1.92	15.20	12.23	17.09	11.08	10.58
Revenue Receipts	66.52	63.38	59.18	63.55	65.47	65.84	72.56	66.19	67.01
Revenue Expenditure	59.51	57.04	66.20	63.33	55.30	53.29	56.75	54.39	54.75
Capital Outlay	17.04	16.47	11.74	11.23	15.46	18.50	16.70	15.57	16.19
Total Expenditure	76.55	73.51	77.94	74.56	70.76	71.79	73.45	69.96	70.94
Outstanding Debt	56.59	54.76	64.55	80.63	74.84	70.75	69.34	69.39	72.79

Source: Basic Data, Finance Account Relevant Issues, GOS

The Government of Sikkim took several measures to overcome the fiscal stress which include (I) freezing of fresh recruitment, (ii) introduction of VRS on a selective basis, (iii) restructuring of SPEs; and (iv) stepping up tax and non-tax revenue efforts (Box 1). These steps, however, had only a limited impact on the overall finances of the state government as the dependence of the state on central transfers, both plan and non-plan continues to be overwhelming.

Box 1
Fiscal Reform Measures taken by Government of Sikkim

The measures taken by the Sikkim state government to overcome fiscal stress may be divided into three categories, viz., Fiscal Measures, Institutional Measures and Sectoral Measures.

Fiscal measures include:

- measures for expenditure containment such as pruning inefficient sectors, right-sizing the government machinery, and focussing on merit based subsidies;
- measures to augment revenue, strengthening the tax base;
- preparatory steps towards implementation of VAT;
- Disinvestments of all non-performing assets with the public sector units is being considered;
- Mechanism to monitoring Scheme based transfers to the State in various departments

Institutional measures include:

- measures to strengthen the process of decentralisation
- proposes to enforce measures to step up revenue collection efficiency from power sector;
- budgetary support to power sector is proposed to be linked with actual outcomes in the sector;

Sectoral measures include:

- focus on allocating adequate resources to the core areas such as agriculture, infrastructure and social sectors;
- project on `Agricultural Export Zone' to be concretised
- proposal to constitute Agriculture Expert Committee with pre-determined annual export target under each Zilla Parishad to co-ordinate the grass root activities.

The award of the Eleventh Finance Commission, however, turned out to be beneficial to Sikkim. While the tax revenue devolution declined, it was more than compensated by the increased grants. Similarly there was significant step up in plan grants also since the beginning of the new decade. As a result, there has been appreciable improvement in state finances since 2000-01 (Table 1 and Annexure 2.1)

There are, however, disquieting signs on the fiscal front as the implemention of recommendations of the Twelfth Finance Commission is likely to substantially reduce the statutory transfers to the State. This is likely to pose a serious challenge to the pursuit of stable and growth oriented fiscal policy in the State. The other factors which can have significant impact on Sikkim state finances in the coming years are (I) introduction of VAT with effect from April 2005 (dealt with in Chapter, 3), (ii) restructuring of the government departments; and (iii) restructuring of state PSUs (Chapter, 8).

If the present trend continues the state government will not be able to attain its Tenth Plan targets in fiscal and physical terms. Provision of essential basic services and building up of the requisite social and economic infrastructure for sustained economic development to ensure full employment is the principal goals of the government. Unless appropriate corrective measures are taken early, the State government will not be able to fulfill these. These factors clearly underline the imperative for reorganizing the state finances. This, *inter alia*, involve introduction of VAT, restructuring of the state PSUs, reducing the public debt and securing economies in government expenditure while improving the capacity of the government for policy making and delivery of services. The opportunity should also be used to address several (institutional and administrative bottlenecks that stood in the way of full utilization of public expenditure benefits.

Box II

Institutional and Administrative Bottlenecks

Two such cases where changes are needed are briefly described here:

The State is not governed by Indian Income Tax; but by the State of Sikkim Income Tax Act with the following tax rates since 1970.

On the first Rs.2400	Nil
Next Rs.2400	2 Percent
Next Rs.3600	4 Percent
Next Rs.3600	6 Percent
Next Rs.6000	8 Percent
Above	10 Percent

No doubt, this highly regressive rate structure needs to be changed.

Gangtok, the capital of the state is a hill town with narrow roads and a fragile environment. The town is chocked by fast growth of automobiles. This is on account of large number of government vehicles given to the officials for their personal use and on account of indiscriminate issue of permits for taxies. Some of the possible policy changes to decongest the state capital are:

(1) Phased withdrawal of personalised vehicles of the officials by offering them appropriate transport allowance and simultaneously introducing mini bus services;
(2) Encouraging government vehicle drivers to own the vehicles and operate as taxi drivers; and Banning entry of vehicles in crowded roads/market places and introduction of pedestrian only zones

2.2 Employment and Salaries in Sikkim

Salary payments account for a major share of the committed expenditures in all the States. The salary revisions undertaken by the State governments, in the wake of the Fifth Central Pay Commission, resulted in substantial increases in the average salaries. Inspite of the increasing convergence in the salary structure, there are considerable interstate variations in the average salaries per employee.

Expenditure on salaries relative to revenue expenditures excluding interest payments and pension in respect of 5 NEC States and a total of 21 States for which comparable data have been received by the TfFC are presented in Table 2. Government expenditure on salaries includes basic salary, dearness allowance, city compensatory allowance and other benefits including LTC and medical benefits. The figures for Sikkim have been grossly underestimated on account of the fact that revenue expenditure figures used as devisor was gross figures including expenditure on lotteries. Corrected ratios are worked out and given in brackets after excluding lottery expenditure for the period 1995-96 to 2003-04. The all States' average which was about 35% increased to over 41% in the wake of salary revision in 1999-2000 but came down to about 37 per cent by 2001-02. All the NEC States have significantly higher salary share as compared to the all States' average. The TfFC stipulates that all the States including NEC States should strive to reduce the salary share to about 35 per cent of revenue expenditure excluding interest payments and pensions.

The salary outlay depends on the number of employees and the average rate of emoluments. The trend in the share of salary expenditure in revenue expenditure, therefore, is the combined effect of the trend in total employment and average salary expenditure. Statewise number of regular employees in the NEC States and all States are given in Table 3. It is important to note that while there has been a declining trend in the total number of State government employees in the post pay revision period, there was an upward trend in employment as far as the NEC States except Assam are concerned. The highest growth rate of 18% between 1998-99 and 2002-03 was, indeed, in Sikkim.

Table 4 presents the trend in per employee salary expenditure in NEC States along with that in all States. It is clear that the salary expenditure growth in Sikkim was the highest during the last decade, the average salary expenditure in Sikkim was just about the all States average in 1994-95. But by 1998-99, Sikkim overtook all other States and retained that position since then. Also, the State had the dubious distinction of doubling the salary expenditure in a single year in 1998-99, the year in which pay revision was carried out in the State.

While in a State like Sikkim, which has limited employment opportunities outside the Government will continue to have pressure on government employment, the logic of high average salary expenditure is difficult to explain. The approach of the TfFC, which is spelt out in its report is that a State which is under fiscal stress, has high rate of government employment and high salary structure has to follow a strategy which involves: (i) reduction in employment, (ii) reduction in salary expenditure per employee, or (iii) raise revenues without increasing revenue deficit. It is time that Sikkim has a close look at this prescription.

Table 5 presents the latest position in terms of total employment and average salary expenditure in Sikkim. The total employment including workcharge, muster roll and anganwadi workers was close to 40000 by 2004-05 and the salary expenditure is almost Rs 400 crore. Since there is a huge wage difference between muster roll workers and workcharge employees on the one hand and workchange employees and the regular employees on the other, the pressures for upgradation will continue. On the other hand, the TfFC has ordained a scheme which in effect is a move in the opposite direction.

2.3 Implications of Twelfth Finance Commission (TfFC) Recommendations on Revenues of Sikkim

In the Inception Report it was indicated that the outlook for State government finances depends critically on the award of TfFC in respect of tax revenue devolution, grants and restructuring of State debt. This section deals with the implications of TfFC recommendations relating to devolution and grants on the revenues of the State.

As per the recommendations of the TfFC, the States' share has been fixed at 30.5 pert cent of the net proceeds of sharable Central taxes during 2005-10. Out of this, the share assigned to Sikkim is 0.227 per cent. The amount projected for the State is Rs. 1392.94 crore for the five year period. The yearly distribution is indicated in Table 6. As against Rs. 207.58 crore projected for 2005-06 by the TfFC, the amount indicated in the Union Budget 2005-06 for Sikkim is Rs. 215.71 crore.

What Sikkim gets by way of grants-in-aid over the next five year on the basis of TfFC recommendations is also presented in Table 6. Except for grants-in-aid for education and health, the State gets its share under all other items. The State specific grant of Rs. 100 crore is meant for the airport. This amount, however, will be reimbursed to the State only on utilisation. It is important to note that the Eleventh Finance Commission had provided Rs. 50 crore for the same purpose, but the State could not utilise it.

A comparative picture of TfFC recommended transfers to member States of North Eastern Council (NEC) including Sikkim is presented in Table 7. It is evident from the table that Sikkim gets the lowest amount of non-plan revenue deficit grant of Rs. 188.67 crore for the five year period. In per capita terms this works out to Rs. 3780 as compared to Rs. 33089 for Mizoram, Rs. 27685 for Nagaland, Rs. 19096 for Manipur, Rs. 17169 for Tripura, Rs. 12345 for Arunachal Pradesh and Rs. 7813 for Meghalaya.[2]

The low non-plan revenue gap grant for Sikkim is the combined effect of relatively high own revenue receipts projected and relatively low growth in projected non-plan revenue expenditure. The high level of own revenue projection is on account of high growth in own tax revenue of the

[2] In this context it is important to note that among the NEC States Sikkim is the only State for which the non-plan revenue grants recommended by the TfFC is lower than the corresponding grants recommended by the Eleventh Finance Commission. The amount provided by the EFC for Sikkim was as much as Rs. 840.58 crore for five year period as compared to just Rs. 188.67 crore by the TfFC.

State in the past and on account of high base of non-tax revenues. The high growth of own tax revenue in the past resulted in high trend growth rate (TGR) of 19.86 for the period 1993-94 to 2002-03 which was applied to reach the base year level of own tax revenue. A high base of non-tax revenue is the result of a bumper net revenue of Rs. 84.14 crore in 2002-03 received from on-line lottery of Sikkim which could not be sustained in the subsequent years. The total impact of these two factors is likely to be an overestimation of the order of Rs/ 250 crore of the TfFC assessed own revenue receipts of the State for the five year period.

The relatively low growth in the assessed non-plan expenditure of the State is principally on account of two factors, viz., (i) total exclusion of the departmental expenditure on power and transport and (ii) the lower growth in salary expenditure used for projection purpose as compared to the past growth rate. The combined operation and maintenance (O&M) expenditure of the power and transport departments was of the order of Rs. 50 crore in 2004-05. The basic approach of TfFC that these O&M expenditure of power and transport departments should be met from user charges implied that there will be no expenditure on account of this item for the projection period. Sikkim has been experiencing the highest growth in per capita salary expenditure among all the States during the last decade. Besides, the State has experienced a high growth of regular employment during the last decade. As against a TGR of about 15 per cent in salary expenditure experienced by the State in the past decade, the TfFC has assumed a growth rate of 5 per cent in the salary expenditure of all States uniformly. The combined effect of these two factors is a shortfall of about Rs. 500 crore in the projected non-plan revenue expenditure of the State as compared to the projections made by the State government. The own revenue receipts and non-plan revenue expenditure of Sikkim as assessed by the TfFC are presented in Table 8.

Three tables are given at annexure which present comparative assessment of revenue surplus/deficit for NEC states including Sikkim. Annexure 2.2 gives pre-devolution non-plan revenue deficits. All the NEC states have been assessed to have revenue deficit with Sikkim having the lowest figure at Rs. 1580 crore for the five year period. Post-devolution non-plan revenue surplus/deficit of the NEC states are presented in Annexure 2.3. Assam is the only NEC State which is assessed to have a post-devolution non-plan revenue surplus. Among the remaining 7 NEC States, Sikkim has the lowest non-plan revenue deficit during the TfFC award period. Annexure 2.4 gives the year wise details of grants-in-aid for non-plan revenue deficit for the NEC States. While six States receive grants-in-aid during all the five years of the award period, Assam received only for the first year and Sikkim for the first four years.

Table 2 Expenditure on Salaries Relative to Revenue Expenditures (excluding Interest Payments and Pension)

(per cent)

.State	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Arunachal Pradesh	40.5	41.1	39.7	45.2	50.1	48.6	46.7	43.6	47.8	-
Assam	60.7	60.7	70.4	71.7	74.3	75.9	71.1	71.5	71.7	-
Meghalaya	48.6	45.8	51.7	55.0	52.3	52.7	50.1	54.3	57.5	-
Sikkim	16.8	11.6 **(37.66)**	10.6 **(38.48)**	11.1 **(40.84)**	17.9 **(55.77)**	18.3 **(53.60)**	37.6 **(55.43)**	17.1 **(52.61)**	16.5 **(48.76)**	**(51.17)**
Tripura	53.1	68.8	54.5	55.8	59.9	64.4	60.2	67.0	69.9	-
Total (21 states) Sta	**35.2**	**36.2**	**34.8**	**37.0**	**39.7**	**41. 3**	**38. 3**	**36.8**	**37. 3**	-

Source: Report of the Twelfth Finance Commission, Govt. of India, February, 2005

Table 3 State wise Number of Government Employees

State	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
Arunachal Pradesh	33222	36325	37420	39222	39606	39445	40231	40322	41165
Assam	413464	422690	430357	441590	459701	453245	447424	441634	435534
Meghalaya	36194	38014	39613	42830	44928	46644	47427	48776	49813
Sikkim	19522	20158	21038	21701	20395	22728	22859	23426	23973
Tripura	90300	89242	96310	96725	96673	105038	103736	101604	98379
Total (21 States)	7947292	8056669	8075237	8129521	8140736	8035557	7942643	7863382	7824012

Source :Report of the Twelfth Finance Commission, Govt. of India , February,2005.

Table 4 Total Salary per Employee in NEC States

(In Rupees)

State	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
1	2	3	4	5	6	7	8	9	10
Arunachal Pradesh	48040	51369	57119	67613	81229	88462	94136	93558	98221
Assam	36895	41616	45720	51198	57860	73070	77432	81745	83720
Meghalaya	53434	62001	70568	77378	82668	89471	96181	108088	113808
Sikkim	42665	49012	54430	62041	125552	114852	109617	113651	121684
Tripura	34891	50654	42277	49915	58755	70292	77736	89609	99631
Total (21 States) – Weighted average	41968	47398	53631	61377	75116	89600	92214	90353	94603

Table 5 Sikkim: Employment and Salaries in 2004-05

Type of Employees	Number	Expenditure on Services (Rs in crore)	Average Salary Per Year (In Rs)
Regular Employees	25349	345.57	136325
Workcharged Employees	1849	15.12	81795
Muster Roll Workers	10584	35.56	33600
Anganwadi Workers	1991	2.39	12000
Total	39773	398.64	-

Source: Government of Sikkim

Table 6 What Sikkim Gets by way of Devolution and Grants-in-aid on the Basis of TfFC Report

(Rs. Crore)

		2005-06	2006-07	2007-08	2008-09	2009-10	Total
1.	Tax Revenue Devo-lution	207.58	237.65	272.80	313.59	361.42	1392.94
2.	Grants-in-aid for non-plan deficit	66.81	47.06	52.86	21.94	Nil	188.67
3.	Grants-in-aid for edu-cation	--	--	--	--	--	--
4.	Grants-in-aid for Health	--	--	--	--	--	--
5.	Grants-in-aid for Maintenance of Roads and bridges	--	4.66	4.66	4.66	4.66	18.64
6.	Grants-in-aid for Maintenance of Public buildings	--	8.04	8.03	8.04	8.04	32.15
7.	Grants-in-aid for Maintenance of Forests	1.60	1.60	1.60	1.60	1.60	8.00
8.	Grants-in-aid for Heritage conservation	--	1.25	1.25	1.25	1.25	5.00
9.	Grants-in-aid for state specific needs	--	25.00	25.00	25.00	25.00	100.00
10.	Grants-in-aid for local bodies	2.80	2.80	2.80	2.80	2.80	*14.00
11.	Calamity relief funds	13.15	13.53	13.93	14.35	14.78	69.74
12.	Total	291.94	341.59	382.93	393.23	419.55	1829.14

- Of which, Rs. 13 crores is for rural local bodies and Rs. 1 crore for urban local bodies.

Source: Report of the Twelfth Finance Commission, Government of India, February 2005.

Table 7 Total Finance Commission Transfers to North Eastern States

Rs. crore

S+tates	Central Taxes & Duties (2005-10)	Share in Grants-in-aid											Total Transfers (Col.2+ Col.13)
		Non-Plan Revenue Deficit (2005-10)	**Health Sector (2005-10)**	**Educa-tion (2005-10)**	**Mainte-nance of Roads and Bridges (2006-10)**	**Mainte-nance of Buil-dings (2006-10)**	**Mainte-nance of Forests (2005-10)**	**Heritage Conser-vation (2006-10)**	**State Specific Needs (2006-10)**	**Local Bodies (2005-10)**	**Calamity Relief (2005-10)**	**Total (Col.3 to Col. 12)**	
1	2	3	4	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**
Arunachal Pradesh	1767.34	1357.88			44.36	57.42	100.00	5.00	10.00	71.00	112.56	1758.22	3525.56
Assam	19850.69	305.67	966.02	1107.37	330.12	230.64	40.00	20.00	130.00	581.00	767.89	4478.71	24329.40
Manipur	2221.44	4391.98			76.91	37.71	30.00	5.00	30.00	55.00	22.11	4648.76	6870.20
Meghalaya	2276.61	1796.86			86.40	35.02	30.00	5.00	35.00	58.00	44.88	2091.16	4367.77
Mizoram	1466.52	2977.79			42.12	23.29	25.00	5.00	65.00	30.00	26.19	3194.39	4660.91
Nagaland	1613.67	5536.50			120.88	46.17	25.00	5.00	45.00	46.00	15.19	5839.74	7453.41
Sikkim	1392.94	188.67			18.64	32.15	8.00	5.00	100.00	14.00	69.74	436.20	1829.14
Tripura	2626.09	5494.20			61.48	50.11	15.00	5.00	49.00	65.00	51.12	5790.91	8417.00
Total States	**613112.02**	**56855.87**	**5887.08**	**10171.65**	**15000.00**	**5000.00**	**1000.00**	**625.00**	**7100.00**	**25000.0**	**16000.00**	**142639.60**	**755751.62**

Source: Report of the Twelfth Finance Commission, Government of India, February 2005.

Table 8 Assessed Own Revenue Receipts and Non-Plan Revenue Expenditure of Sikkim

(Rs. in crore)

Item	2005-06	2006-07	2007-08	2008-09	2009-10	2005-10
A Revenue Receipts						
1. Own Tax Revenue	119.75	136.99	156.72	179.29	205.11	797.86
2. Own Non-Tax Revenue	84.14	90.01	96.88	104.94	114.47	490.44
3. Total (1+2)	**203.89**	**227.00**	**253.60**	**284.23**	**319.58**	**1288.30**
B. Non-Plan Revenue Expenditure						
1. **General Services**						
i. Interest Payments	94.75	99.50	104.60	110.18	130.07	539.10
ii. Pension	34.60	38.05	41.86	46.05	50.65	211.21
iii. Other General Services (incl. Elections)	110.61	116.74	124.09	130.05	138.36	619.86
Total (i) to (iii)	**239.96**	**254.29**	**270.55**	**286.28**	**319.08**	**1370.17**
2. Social Services	171.64	187.31	204.48	223.27	243.85	1030.55
3. Economic Services	66.67	70.11	73.74	77.55	81.55	369.62
4. Compens.& assign. To Local Bodies						
5. Committed liabilities			30.39	32.67	35.12	98.17
6. Total Non-Plan Revenue Exp.(1 to 5)	**478.27**	**511.71**	**579.16**	**619.77**	**679.60**	**2868.51**
C. Pre-Dev. Non-Plan Rev. Deficit/Surplus	**-274.39**	**-284.71**	**-325.56**	**-335.53**	**-360.02**	**-1580.21**

Source: Report of the Twelfth Finance Commission, Government of India, February 2005.

2.4 Alternate Scenarios

TfFC Recommendations impose severe strain on Sikkim State Finances on account of steep decline in non-plan revenue deficit grant which is not compensated by increase in tax devolution. As compared to a non-plan grant of Rs.176 crore in 2004-05 the State receives only 84 crore in 2004-05. Other components of grants which will become available from 2006-07 onwards subject to specific conditionalities like grants-in-aid for the maintenance of roads and bridges, grants-in-aid for maintenance of public buildings and grants-in-aid for new Airport will improve somewhat the non-plan grant in the subsequent two years. The phasing out of revenue gap grant through the last two years of the TfFC award period further puts strain on the revenue position which adversely impact on the revenue surplus of the State. In this section the fiscal situation of the State in the medium term under two alternate scenarios – a baseline scenario and a reform scenario – are presented (Projection methodology detailed in Annexure 2.5).

Baseline Scenario

In the baseline scenario the State will not be able to maintain the revenue surplus of the base year in none of the years of the TfFC award period. It may be noted that the base line scenario depicts the continuation of the past trend in State's own revenue receipts and revenue expenditures. The conditionality regarding revenue surplus imposed by TfFC for Sikkim requires maintaining of at least Rs.168 crore for each of the five years. Indeed under the baseline scenario this is not possible even for a single year. In case the State Govt. enacts fiscal responsibility legislation, with this stipulation, the milestones regarding revenue receipts will be out of tune with reality.

The level of fiscal deficit will be essentially determined by the level of capital outlay given the revenue surplus. If the State Govt. attempts to maintain the past tempo of growth of capital outlay during the TfFC award period, the fiscal deficit is bound to increase from the base year level. Even if the growth in capital outlay is contained to the nominal growth of GSDP, the upward trend in GFD will continue unabated. This will have implications for Debt; GSDP ratio also which will continue to show upward trend. In short the baseline scenario indicates an explosive fiscal situation which will defy the fiscal rules associated with any fiscal responsibility legislation.

It may be mentioned in this context that the revenue projections under the baseline scenario have been made more realistic than those given by TfFC by adjustment of estimates of revenue from lottery as well as own tax revenues. Again, on the revenue expenditure side, assumptions regarding containment of salary and expenditure growth have been made more realistic in the light of past experience. Tax and non-tax revenues net of lotteries are expected to grow at 10 percent per annum during the period. As for lottery revenue, the three year average net revenue for 2000-01, 2001-02 and 2003-04 is taken as the base level i.e. excluding the figure for 2002-03 which was exceptionally high. The base level figure is assumed to continue for the forecast period as assumed by the TfFC. Share of central taxes and non-plan grants are assumed to be same as recommended by the TfFC. In the case of plan grants it is assumed that they will grow at the same rate as nominal GDP. As far as revenue expenditure is concerned interest and pension forecasts are the same as those adopted by the TfFC. In the case of other revenue expenditure, the trend growth rates experienced during 1993-94 to 2004-05 have been used for forecasting the figures for the medium term. Department specific projections have been made for important departments of education, health, police, power and transport. The rest of the departments have been clubbed together for projection purpose.

The GSDP growth is assumed to be 12 percent in nominal terms during the forecast period which is the same as in the case of TfFC. Total revenues of the State as a share of GSDP remains at around 62 percent during the first three years of the forecast period and experiences significant reductions during the last two years of the forecast period. This is mainly on account of the steep decline in non-plan grants during that period. It is also worth noting that even in the case of State’s own tax revenues a modest decline is indicated. This is mainly on account of the fact that the two principal State taxes viz. Sales tax and income tax experienced unprecedented growth rates in the recent past which may not be sustained for long. Total revenue expenditure as a share of GSDP, on the other hand is showing an upward trend over the forecast period. This is on account of the higher trend growth used for projecting a few major sectors like education, police and power. For example the revenue expenditure on education increases from 11.29 percent of GSDP in 2004-05 to 13.87 in 2009-10.

The net result of a decelerating revenue receipt profile and accelerating revenue expenditure profile is a fast declining revenue surplus profile over the forecast period. Indeed, the revenue surplus as a percentage of GSDP declines from over 12 percent in 2004-05 to just about one per cent in 2009-10. If the capital expenditure under the plan has to grow at the same rate as GSDP in nominal terms, considerable increase in borrowing will become essential. The fiscal deficit has to go up from about Rs.58 crore in 2004-05 to over Rs.391 crore in 2009-10. This will lead to an unstainable debt profile for the State. The Debt : GSDP ratio will grow from about 73 percent in the base year to about 87 percent in the terminal year of the forecast period.

The above scenario clearly brings out two festures. First, if the business as usual situation continues in respect of State's revenue receipts and revenue expenditures there is no alternative except steep cut in capital outlay on plan. This will have serious adverse implications for future growth of the State economy and welfare of the people. The alternative course is to improve the own revenue receipts and compress revenue expenditure to ensure fiscal sustainability even without sacrificing in terms of growth and welfare.

Table 9 Baseline Scenario: Sikkim

Rs. Lakh

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
1. Total Revenue	**98782.5**	**102568**	**115533**	**128547**	**139463**	**153062**
A. Own Tax	12206.0	13426.6	14769	16246	17871	19658
Income Tax	3375.0	3713	4084	4492	4941	5435
B. Own Non Tax (net of Lottery)	7662.0	8428	9271	10198	11218	12340
Net Lottery income	2886.0	2198	2198	2198	2198	2198
C. Share of Central Taxes	10670.0	16606.4	19012	21816	25087	28914
D. Grants	65358	61908	70283	78089	83089	89953
Plan Grants	47743.1	53472	59889	67076	75125	84140
Non-plan Grants	17615.4	8436	10394	11013	7964	5813
2. Total Revenue Expenditure (net of lottery expenditure)	**80708**	**89864**	**101763**	**115378**	**130960**	**150192**
E. Interest		9475	9950	10460	11018	13007
F. Pension	3078.0	3205	3650	4165	4750	5425
G Education	16648.6	19428	22671	26455	30871	36025
H. Health	4369.0	4901	5497	6166	6916	7758
I. Police	5728.7	6646	7711	8946	10379	12041
J. Power	4122.7	4820	5635	6588	7702	9005
K. Transport	4453.7	4759	5086	5434	5807	6205
L. Other Revenue Expenditure	32281.2	36630	41564	47163	53516	60726
3. Capital Outlay	**23868.26**	**26732**	**29940**	**33533**	**37557**	**42064**
4. Net Lending	**-23.30**	**-26**	**-29**	**-33**	**-37**	**-41**
5. Revenue Deficit	**-18075**	**-12704**	**-13770**	**-13169**	**-8502**	**-2870**
6. Fiscal Deficit	**5770.37**	**14002**	**16141**	**20331**	**29018**	**39153**
7. End of the period Debt	**107296.3**	121298.5	137440	157771	186789	225942
GSDP	**147413**	**165103**	**184915**	**207105**	**231957**	**259792**

Note: Revenue deficit with – sign indicates revenue surplus

Table 10 Baseline Scenario: Sikkim (Ratio to GSDP)

Per cent

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
1. Total Revenue	**67.01**	**62.12**	**62.48**	**62.07**	**60.12**	**58.92**
A. Own Tax	8.28	8.13	7.99	7.84	7.70	7.57
A1. Income Tax	2.29	2.25	2.21	2.17	2.13	2.09
B. Own Non Tax Revenue	5.20	5.10	5.01	4.92	4.84	4.75
Net Lottery income	1.96	1.33	1.19	1.06	0.95	0.85
C. Share of Central Taxes	7.24	10.06	10.28	10.53	10.82	11.13
D. Grants	44.34	37.50	38.01	37.70	35.82	34.62
Plan Grants	32.39	32.39	32.39	32.39	32.39	32.39
Non-plan Grants	11.95	5.11	5.62	5.32	3.43	2.24
2. Total Revenue Expenditure (net of lottery expenditure)	**54.75**	**54.43**	**55.03**	**55.71**	**56.46**	**57.81**
E. Interest	0.00	5.74	5.38	5.05	4.75	5.01
G. Pension	2.09	1.94	1.97	2.01	2.05	2.09
H Education	11.29	11.77	12.26	12.77	13.31	13.87
I. Health	2.96	2.97	2.97	2.98	2.98	2.99
J. Police	3.89	4.03	4.17	4.32	4.47	4.63
K. Power	2.80	2.92	3.05	3.18	3.32	3.47
L. Transport	3.02	2.88	2.75	2.62	2.50	2.39
J. Other Revenue Expenditure	21.90	22.19	22.48	22.77	23.07	23.37
3. Capital Outlay	**16.19**	**16.19**	**16.19**	**16.19**	**16.19**	**16.19**
4. loans and advances: (disbursements-receipts)	**-0.02**	**-0.02**	**-0.02**	**-0.02**	**-0.02**	**-0.02**
5. Revenue Deficit	**-12.26**	**-7.69**	**-7.45**	**-6.36**	**-3.67**	**-1.10**
6. Fiscal Deficit	**3.91**	**8.48**	**8.73**	**9.82**	**12.51**	**15.07**
7. End of the period Debt	**72.79**	**73.47**	**74.33**	**76.18**	**80.53**	**86.97**

Note: Revenue deficit with – sign indicates revenue surplus

Reform Scenario

As compared to the baseline scenario, the reform scenario has considerable scope for policy interventions. Except for share of central taxes, non-plan grants, plan grants and pension expenditure, all other fiscal variables are considered endogenous. As far as share in central taxes is concerned, it is expected that TfFC projections will hold good. Since the State has been having its own income tax, it foregoes the income tax share of the central government. While the extension of Central Income Tax Act to Sikkim is an emotive issue in the state, it has to be recognized that the State Income Tax Act 1970 which remains unamended needs to be reformed at the earliest. First of all it has a highly regressive rate structure. (See Box II) As far as individual rates are concerned it varies from 2 to 10 percent. A person with even as low an income as Rs. 2400 per annum comes under the tax net. At the same time the marginal tax rate is only 10 percent. Secondly, the rate applicable to business is a turnover tax as high as 3 percent which may have serious adverse implications on industry and trade in the state. In case the State income tax is to continue it needs to be thoroughly reformed which will also imply that there can be a significant drop in tax revenue. The alternative is to accept the central income tax regime which will imply much more tax revenue for the State with much less tax burden for most of the Sikimese.

An important component of tax reform is the introduction of VAT with effect from April 2005. In the case of Sikkim, however, increase in the sales tax revenue buoyancy since 1999-2000 with the introduction of floor rates and plucking of the loopholes has been significant. The prescriptive growth rate is taken at 14.40 percent per annum comprising of revenue buoyancy of 1.20 percent and nominal GSDP growth rate of 12 percent. Similarly applying plausible revenue buoyancies for other major components of own tax revenues like state excise, land revenues, stamp duty and registration, motor vehicle taxes and other taxes, own tax revenue forecasting for the period 2005-06 to 2009-10 has been made. The state's own tax revenue net of income tax (IT), as a percentage of GSDP has increased from 5.99 in the base year to 6.39 in the terminal year.

Non tax revenue is projected net of lottery income. The principal components are interest and dividends, general services, social services and economic services. Except three items under economic services viz. forestry, power and transport, all others are expected to growth at 12 percent, same as the nominal growth of GSDP. Considering the need for preserving the forests and in view of the fragile nature of environment in the State, revenue from forestry is kept at the base year level throughout the forecast period. Power and Transport being two economic services which involve substantial subsidies, significant improvement in revenues from user charges is expected. Revenue from power is expected to grow at 24 percent per annum and revenue from transport is projected to grown at 18 percent per annum. Revenue growth from power need not necessarily be from increased tariff. It could very well be achieved by improving the operations of the power sector including reducing Transmission and Distribution (T&D) losses. Similarly in the case of transport also increase in fare/fright charges need not be the source of revenue improvements. Improvements in operational efficiency can bring in more revenues.

Net lottery incomes for the base period is taken as the three year average for 2001-02, 2003-04 and 2004-05 which worked out to 27.91 crore. The same level of net lottery income is expected for each of the forecast years.

Under the reform scenario non tax revenue net of lottery income as a share of GSDP is expected to increase from 5.20 percent in the base year to about 6 percent in the final year of the forecast period. On the other hand net lottery income as a share of GSDP comes down from about 2 percent to one percent.

In the total revenue expenditure about 70 percent is accounted for by non-plan expenditure in the base period. This includes interest liability as well as pension payments. While pension figures are as projected by the TfFC, interest figures have been taken after adjustments for interest reduction arising from rescheduling and rate reduction on outstanding debt to the Centre as recommended by the TfFC. While projecting the revenue expenditure of various departments, a clear distinction is made between plan and non-plan expenditure on the one hand and salary and O&M expenditure on the other. Non-plan salary expenditure is expected to grow at a rate not exceeding 5 percent. At the same time there is a genuine need to raise the operation and maintenance (O&M) expenditure significantly to generate the intended outcomes of public expenditure. It has to be noted that a substantial share of the plan revenue expenditure is also on account of salary to employees who have been continuing from plan to plan. For all practical purpose this is also in the nature of non-plan expenditure. Indeed, exceptions apart there is hardly any need for fresh recruitment except in Education and Health during the medium term. The salary expenditure even on the plan side should be growing at less than 10 percent per annum.

The average salary expenditure in Sikkim is highest among all the States, well beyond the state's carrying capacity. In this fiscal environment, it is necessary to decelerate the growth in salary expenditure. The State Govt. has got about 25000 regular employees and another 15000 workcharge, muster roll and Anganvadi workers together. The salary figures in the Govt. account relate to only regular employees. The wages paid to other workers are accounted for in the O&M expenditure. To restrain the escalation in salary expenditure two types of measures are required. The past practice of regularising workcharge and muster roll workers should be strictly discontinued. Policies should be geared to encourage private sector employment so that muster roll workers get better opportunities in the private sector. Again, to encourage private sector employment, it is important that regular Govt. employment should be made less attractive monetarily than they are today. There are several cash benefits and perks like encashment of leave which should be phased out.

The TfFC has recommended that the proportion of salary expenditure in total revenue expenditure excluding pension and interest payments which was around 37 percent for all States should be brought down to 35 percent by the year 2009-10. In the case of Sikkim this percentage is as high as 51. The general prescription by the TfFC is that the States with higher than average salary share should either reduce the salary burden or increase own revenues. A state like Sikkim with a slender revenue base will have to adopt the first option.

Projection of revenue expenditure on power and transport need special mention. Since power and transport in the state are departmentally operated and the net revenues of these departments are significantly negative, the subsidy burden is directly borne by the state govt. Considering the difficult terrain and the low levels of income of majority of the Sikimese it is unrealistic to expect to run these facilities without subsidies. However, there is need for improving the operational efficiencies of these departments, reducing the non-functional staff in these departments and appropriately increasing the user charges. The combined effect of these measures is expected to reduce the subsidies considerably.

The total revenue expenditure as a share of GSDP is expected to come down from 54.75 percent in the base year to 50.94 percent in the terminal year of the forecast period. The decrease in revenue expenditure more or less balances the reduction in revenue receipts mainly on account of reduction in non-plan grants. As a result the revenue surplus as a share of GSDP remains more or less stable throughout the forecast period. As a result revenue surplus in absolute terms steadily goes up from Rs. 171 crore in 2005-06 to Rs. 287 crore in 2009-10. It implies that the conditionality associated with the proposed fiscal responsibility legislation viz. revenue surplus should be maintained at a minimum of Rs. 168 crore during the forecast period will be satisfied.

The fiscal deficit and the outstanding debt burden of the state will depend on the level of capital outlay during the forecast period. If the capital outlay grows at the same rate as GSDP i.e. 12 percent per annum throughout the forecast period then the fiscal deficit will remain above 3 percent throughout the forecast period. If the capital outlay growth is reduced to 10 percent per annum throughout the forecast period fiscal deficit will reduce below 3 percent in 2007-2008 but will increase to levels above 3 percent in the subsequent two years. Outstanding debt of the state as a ratio of GSDP will come down from 73 percent in the base year to 60 percent in the terminal year in the former case and to 56 percent in the latter case. In order to maintain a level of fiscal deficit below 3 percent during the last two years of the forecast period, either reduction of capital outlay or a special dispensation from the Planning Commission will be required.

Table 11 Reform Scenario: Sikkim (Capital Outlay Growth: 12%)

Rs. Lakh

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
1. Total Revenue	**98782.5**	**103960**	**118014**	**132448**	**145160**	**161050**
A Own Tax net of IT	8831.0	10017	11364	12894	14632	16606
A1. Sales Tax	4807.0	5499	6291	7197	8233	9419
A2. State Excise	3264.0	3656	4094	4586	5136	5752
A3. Land Revenue	43.0	46	48	51	54	58
A4. Stamp Duty & Reg.	141.0	158	177	198	222	248
A5. Motor Vehicle Tax	323.0	370	423	484	553	633
A6. Other Taxes	253.0	289	331	379	433	496
B. Own Non Tax (net of Lottery)	7662.0	8486	9811	11395	13289	15559
Net Lottery income	2886.0	2791	2791	2791	2791	2791
C. Share of Central Taxes	10670.0	20758	23765	27270	31359	36142
D. Grants	65358.5	61908	70283	78099	83089	89953
Plan Grants	47743.1	53472	59889	67076	75125	84140
Non-plan Grants	17615.4	8436	10394	11023	7964	5813
2. Total Revenue Expenditure (net of lottery expenditure)	**80708**	**86893**	**96117**	**106439**	**117999**	**132335**
E. Interest		8693	9208	9769	10391	12453
F. Pension	3078.0	3205	3650	4165	4750	5425
G Education	16648.6	19146	22018	25320	29118	33486
H. Health	4369.0	5024	5778	6645	7641	8788
I. Police	5728.7	6104	6505	6931	7386	7870
J. Power	4122.7	4535	4988	5487	6036	6640
K. Transport	4453.7	4676	4910	5156	5414	5684
L. Other Revenue Expenditure	32281.2	35509	39060	42966	47263	51989
3. Capital Outlay	**23868.26**	26732	29940	33533	37557	42064
4. loans and advances: (disbursements-receipts)	**-23.30**	-26	-29	-33	-37	-41
5. Revenue Deficit	**-18075**	**-17067**	**-21897**	**-26009**	**-27161**	**-28715**
6. Fiscal Deficit	**5770.34**	**9640**	**8014**	**7492**	**10360**	**13308**
7. End of the period Debt	**107296.3**	116936.0	124950	132442	142802	156109
GSDP	**147413**	**165103**	**184915**	**207105**	**231957**	**259792**

Note: Revenue deficit with – sign indicates revenue surplus

Table 12 Reform Scenario: Sikkim (Ratio to GSDP, Capital Outlay Growth 12%)

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
1. Total Revenue	**67.01**	**62.97**	**63.82**	**63.95**	**62.58**	**61.99**
A. Own Tax net of IT	5.99	6.07	6.15	6.23	6.31	6.39
A1. Sales Tax	3.26	3.33	3.40	3.48	3.55	3.63
A2. State Excise	2.21	2.21	2.21	2.21	2.21	2.21
A3. Land Revenue	0.03	0.03	0.03	0.02	0.02	0.02
A4. Stamp Duty & Reg.	0.10	0.10	0.10	0.10	0.10	0.10
A5. Motor Vehicle Tax	0.22	0.22	0.23	0.23	0.24	0.24
A6. Other Taxes	0.17	0.18	0.18	0.18	0.19	0.19
B. Own Non Tax Revenue	5.20	5.14	5.31	5.50	5.73	5.99
Net Lottery income	1.96	1.69	1.51	1.35	1.20	1.07
C. Share of Central Taxes	7.24	12.57	12.85	13.17	13.52	13.91
D. Grants	44.34	37.50	38.01	37.71	35.82	34.62
Plan Grants	32.39	32.39	32.39	32.39	32.39	32.39
Non-plan Grants	11.95	5.11	5.62	5.32	3.43	2.24
2. Total Revenue Expenditure (net of lottery expenditure)	**54.75**	**52.63**	**51.98**	**51.39**	**50.87**	**50.94**
E.Interest	0.00	5.27	4.98	4.72	4.48	4.79
G. Pension	2.09	1.94	1.97	2.01	2.05	2.09
H Education	11.29	11.60	11.91	12.23	12.55	12.89
I. Health	2.96	3.04	3.12	3.21	3.29	3.38
J. Police	3.89	3.70	3.52	3.35	3.18	3.03
K. Power	2.80	2.75	2.70	2.65	2.60	2.56
L. Transport	3.02	2.83	2.66	2.49	2.33	2.19
J. Other Revenue Expenditure	21.90	21.51	21.12	20.75	20.38	20.01
3. Capital Outlay	**16.19**	**16.19**	**16.19**	**16.19**	**16.19**	**16.19**
4. loans and advances: (disbursements-receipts)	**-0.02**	**-0.02**	**-0.02**	**-0.02**	**-0.02**	**-0.02**
5. Revenue Deficit	**-12.26**	**-10.34**	**-11.84**	**-12.56**	**-11.71**	**-11.05**
6. Fiscal Deficit	**3.91**	**5.84**	**4.33**	**3.62**	**4.47**	**5.12**
7. End of the period Debt	**72.79**	**70.83**	**67.57**	**63.95**	**61.56**	**60.09**

Note: Revenue deficit with – sign indicates revenue surplus

Table 13 Reform Scenario: Sikkim (Ratio to GSDP, Capital Outlay Growth 10%)

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
1. Total Revenue	**67.01**	**62.97**	**63.82**	**63.95**	**62.58**	**61.99**
A. Own Tax net of IT	5.99	6.07	6.15	6.23	6.31	6.39
A1. Sales Tax	3.26	3.33	3.40	3.48	3.55	3.63
A2. State Excise	2.21	2.21	2.21	2.21	2.21	2.21
A3. Land Revenue	0.03	0.03	0.03	0.02	0.02	0.02
A4. Stamp Duty & Reg.	0.10	0.10	0.10	0.10	0.10	0.10
A5. Motor Vehicle Tax	0.22	0.22	0.23	0.23	0.24	0.24
A6. Other Taxes	0.17	0.18	0.18	0.18	0.19	0.19
B. Own Non Tax Revenue	5.20	5.14	5.31	5.50	5.73	5.99
Net Lottery income	1.96	1.69	1.51	1.35	1.20	1.07
C. Share of Central Taxes	7.24	12.57	12.85	13.17	13.52	13.91
D. Grants	44.34	37.50	38.01	37.71	35.82	34.62
Plan Grants	32.39	32.39	32.39	32.39	32.39	32.39
Non-plan Grants	11.95	5.11	5.62	5.32	3.43	2.24
2. Total Revenue Expenditure (net of lottery expenditure)	**54.75**	**52.63**	**51.98**	**51.39**	**50.87**	**50.94**
E.Interest	0.00	5.27	4.98	4.72	4.48	4.79
G. Pension	2.09	1.94	1.97	2.01	2.05	2.09
H Education	11.29	11.60	11.91	12.23	12.55	12.89
I. Health	2.96	3.04	3.12	3.21	3.29	3.38
J. Police	3.89	3.70	3.52	3.35	3.18	3.03
K. Power	2.80	2.75	2.70	2.65	2.60	2.56
L. Transport	3.02	2.83	2.66	2.49	2.33	2.19
J. Other Revenue Expenditure	21.90	21.51	21.12	20.75	20.38	20.01
3. Capital Outlay	**16.19**	**15.90**	**15.62**	**15.34**	**15.07**	**14.80**
4. loans and advances: (disbursements-receipts)	**-0.02**	**-0.02**	**-0.02**	**-0.02**	**-0.02**	**-0.02**
5. Revenue Deficit	**-12.26**	**-10.34**	**-11.84**	**-12.56**	**-11.71**	**-11.05**
6. Fiscal Deficit	**3.91**	**5.55**	**3.76**	**2.77**	**3.34**	**3.73**
7. End of the period Debt	**72.79**	**70.54**	**66.74**	**62.36**	**59.01**	**56.42**

Note: Revenue deficit with – sign indicates revenue surplus

A few important fiscal indicators relative to GSDP for the forecast period under the two alternate scenarios are presented in the following graphics. They include (i) total revenue receipts (ii) total revenue expenditure (iii) revenue surplus (iv) fiscal deficit and (v) outstanding debt. The last two under the reform scenario correspond to two alternative levels of capital outlay viz. 12 percent and 10 percent of GSDP. It is clear from the graphics that the reform scenario emphasizes more on revenue expenditure than revenue receipts as compared to the baseline scenario.

Figure 1 Total Revenue Receipts percentage to GSDP

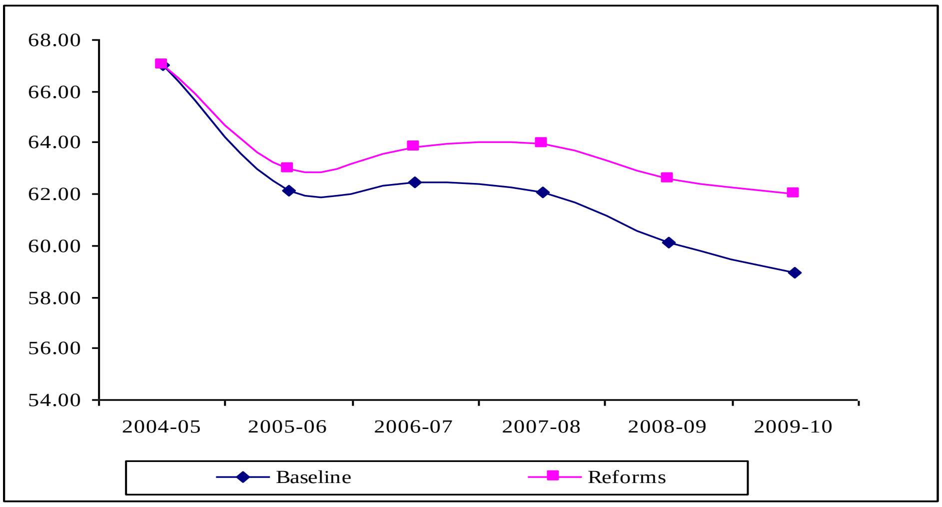


Figure 2 Total Revenue Expenditure percentage to GSDP

Figure 3 Revenue Surplus percentage to GSDP

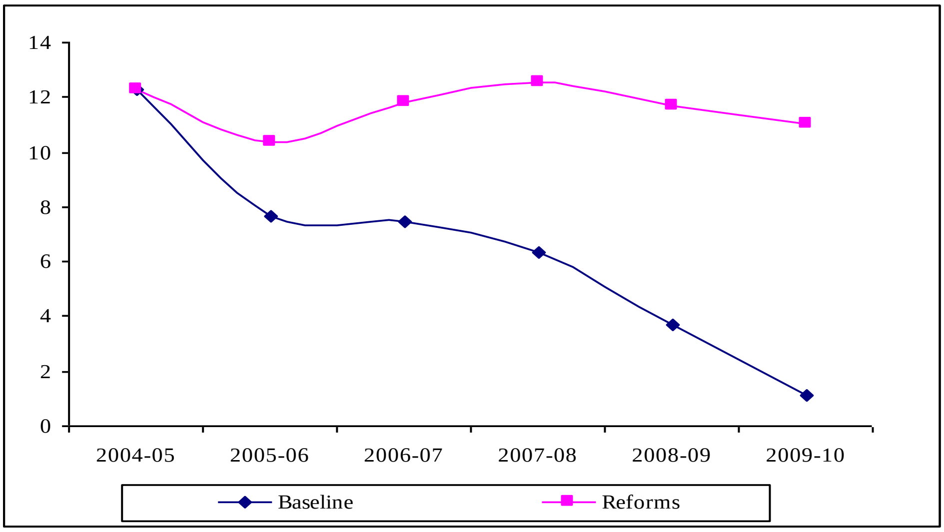


Figure 4 Fiscal Deficit percentage to GSDP (Reform 1: 12% & Reform 2: 10% capital outlay growth)

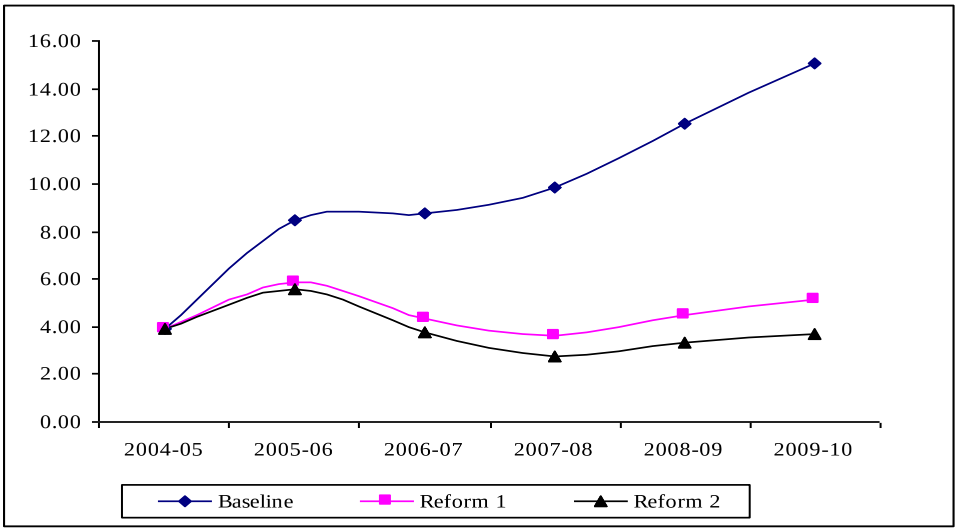
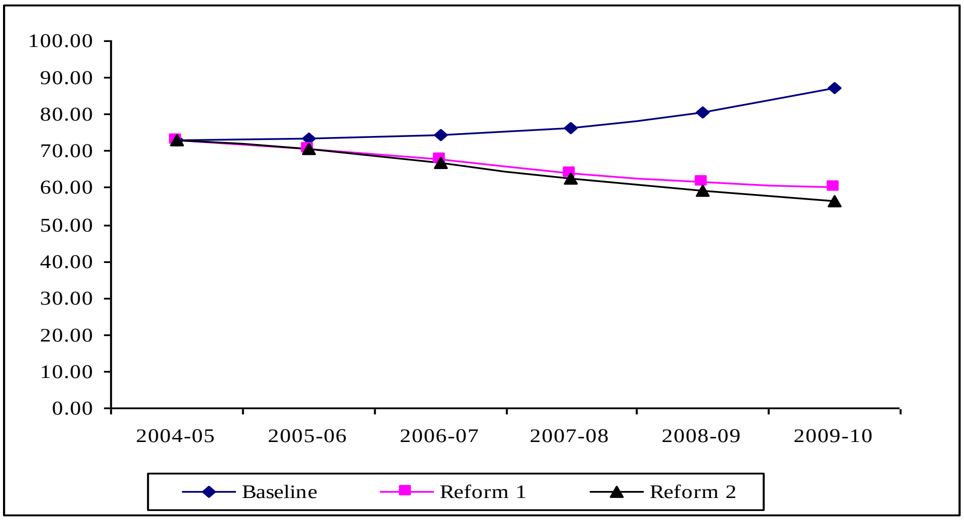


Figure 5 Outstanding Debt percentage to GSDP (Reform 1: 12% & Reform 2: 10% capital outlay growth)



The fiscal situation during forecast period which emerges from the baseline scenario is unsustainable. In this, the revenue surplus steeply comes down and almost vanishes by the terminal year. Almost the entire capital outlay will have to be financed by borrowing in the final year of the forecast period. The explosive growth in fiscal deficit jacks up the Debt-GSDP ratio of the State from 73 percent in the base year to as much as 87 percent in the final year. This scenario also implies that the State will not be able to benefit from the debt write-off scheme by enacting the fiscal responsibility legislation. The fiscal situation arising from the reform scenario is consistent with the stipulation regarding the fiscal responsibility legislation as far as to revenue surpluses are concerned.

Box III
FRBM Act for Sikkim – Some Considerations

Sikkim's Debt: GSDP ratio is one of the highest among the States at about 73% in 2004-05. In contrast Sikkim's interest payment burden as a percentage of revenue receipts is one of the lowest among the States at about 10%. This is on account of the fact that revenue receipts constitute over 60% of GSDP in Sikkim. This is also due to better cash management in the State.

Debt sustainability of a State can be assessed in terms of debt as a percentage of total revenue receipts. Sikkim's debt including contingent liabilities works out to just about 100% of the total revenue receipts, which is the lowest ratio among all the States. Therefore debt sustainability is not a serious problem for Sikkim at this juncture.

For Sikkim to enjoy the full benefit of debt relief from consolidation, rescheduling and lowering of interest rate to 7.5 percent as recommended by the TfFC, the State has to enact the FRBM legislation before the end of FY 2005-06. FRBM Act should prescribe (a) specific annual targets for revenue surplus and fiscal deficit; (b) ceiling along with a path for reduction of borrowings and guarantees.

To benefit from the Debt Write Off Scheme recommended by the TfFC, Sikkim has to maintain a revenue surplus of at least Rs.168 crore (which was the average for 2001-02, 2002-03 and 2003-04) in each year during the TfFC award period. Further, the fiscal deficit has to be contained at about 4 percent of the GSDP, which was the actual level in 2004-05, during every year of the award period.

Under the Reform Scenario detailed in section 2.4, the State Govt. will be able to ensure a level of revenue surplus well above Rs.168 crore during each year of the award period. Indeed, an increasing tempo of revenue surplus is indicated over the years.

The level of fiscal deficit and the outstanding State debt will depend on the level of borrowing for capital expenditure during the forecast period. Under the reform scenario two alternate adjustment paths have been indicated. If the capital outlay grows at the same rate as GSDP i.e. 12% per annum throughout the forecast period, fiscal deficit will remain above 4% of GSDP in every year except the third year of the forecast period. If the growth of capital outlay is reduced to 10% per annum, the fiscal deficit will come down below 4% of GSDP every year except the first year of the forecast period. In the former scenario the outstanding State debt will secularly come down from about 73% of GSDP in 2004-05 to about 60% in 2009-10. In the latter scenario the corresponding reduction will be even faster to reach a level of 56..4 percent by the terminal year.

The above picture emerges under the assumption that the entire capital expenditures in the State will be financed from borrowed funds. This, however, may not be required. It is reported that Central Government has agreed to finance the construction of State Airport and major State Highways through the Ministries of Civil Aviation and Road Transport respectively. If this be the case the State Govt. borrowings can be considerably lowered to ensure that the fiscal deficit remains within limits.

3. State Tax and Non-tax Revenues and Reform Issues

3.1 Profile of State Taxes: An Introduction

In general the states' own revenues are lower than the central transfers in all special category states and Sikkim is no exception to this. There have been efforts to improve the own tax base of the state as a result of which growth in recent years has picked up. The tax collection in nominal terms, which was Rs.15.9 crores in 1989-90, has increased to Rs.108 crores in 2003-04 with an annual average growth rate 15.7 percent. Sikkim has the unique feature of collecting income tax in the state due to the provision of protecting some prevalent laws at the time of its merger with the country. Own tax revenue collected by Government of Sikkim accounted for 8 percent of total revenue during 2003.04. Share of own tax revenue in total revenue of the State constituted around 12 percent during 1989-90, which declined sharply to about 3 percent during late nineties and after 2000-01 it had shown signs of improvement. However, the annual growth rates of own taxes has fluctuated considerably over the years (Figure 6).

The Collection of state taxes in Sikkim compares favorably among the special category states (Table 14). The collection of income tax under State laws in Sikkim is not included while estimating the tax ratios. Own tax and GSDP ratio in Sikkim during the period 1993-94 to 2002-03 remained higher than in many of the special category states barring Assam and Himachal Pradesh, and Uttaranchal, for the last two years.

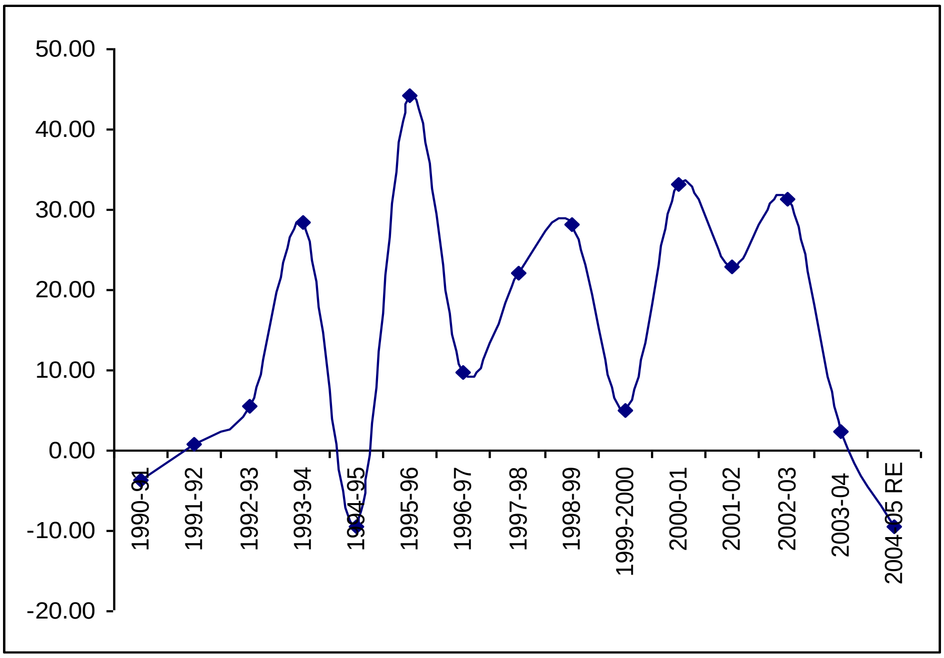
Table 14 Own Tax GSDP Ratio of Special Category States

Percentage

	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
Arunachal Pradesh	0.41	0.59	0.66	0.73	0.74	0.74	0.85	1.15	1.57	1.68
Assam	3.97	3.53	3.56	3.66	3.90	3.81	4.17	4.17	4.51	5.07
Himachal Pradesh	5.07	4.67	4.86	4.66	4.59	4.89	4.71	4.80	5.52	4.91
J &K	2.94	3.16	3.22	2.93	3.11	2.84	3.25	4.22	4.26	5.03
Manipur	1.28	1.46	1.57	1.38	1.54	1.11	1.20	1.02	1.24	1.36
Megahalaya	2.85	3.08	3.13	3.47	2.62	3.05	3.16	3.33	3.26	3.18
Mizoram	0.62	0.56	0.57	0.55	0.69	0.67	0.68	0.73	0.96	1.24
Nagaland	1.24	1.04	1.26	1.56	1.24	1.06	1.22	1.09	1.20	1.26
Sikkim	**3.46**	**2.94**	**3.91**	**3.61**	**4.01**	**3.28**	**3.42**	**4.02**	**4.50**	**5.23**
Tripura	2.01	1.86	1.98	2.00	1.90	2.00	2.01	2.09	2.24	2.25
Uttaranchal								1.90	5.88	6.16
Total	3.39	3.21	3.29	3.27	3.34	3.28	3.48	3.40	4.24	4.50

Source: Finance Accounts of Respective States and TfFC Report for Comparable GSDP.

Figure 6 Annual Growth Rate of Own Tax Revenue



The important sources of own revenue in Sikkim are, income tax levied under state laws (25 percent), sales tax (45 percent), excise duty (23 percent), and motor vehicle tax (3 percent) (Table 15). The composition of individual state taxes in own taxes reveal relative changes over the years. Sales tax collections accounted for 17 percent of own tax revenue in 1989-90, which has increased to 45 percent in 2003-04. During the same period, state excise duty has declined from 48 percent to 23 percent. The income tax under state laws was around 25 percent of Own tax Revenue in 2003-04, which has actually declined from a high of 39 percent in 1998-99. Share of land revenue and stamps and registration fees in own taxes has declined over the years.

The improvements in tax collection in the recent years is seen in terms of increase in the buoyancy of the state's own taxes from 0.76 during 1995-96 to 2003-04 to 1.51 during 1985-86 to 1994-95. The buoyancies of major taxes like sales tax, income tax and excise duty have improved in the second period. However, the buoyancy of state excise duty despite improvement is continues to be less than one. At the same time buoyancy of motor vehicle tax and land revenue have declined. The improvements in the recent years depended more upon ad hoc increases in tax collections from income tax derived from lottery income which has proved to be a very unstable source of revenue and from higher collections of sales tax. The revised estimates for 2004-05 pitch for a lower target of revenue collection even in nominal terms. The revised estimates of 2004-05 for both sales tax and income tax are lower than the actual collections in the previous year.

Expansion of own tax revenue in the State requires improvement in both the tax structure and the administration. The volatility witnessed in the growth of state taxes needs to be contained to make it a predictable source of revenue. The tax base of the state has been affected by factors like small size of the state, low density of population, and lack of manufacturing activities. At the same time some distortions in the tax structure itself has impacted the business activity adversely. The State has introduced value added tax (VAT) from 1st April 2005 replacing the sales tax along with other States in the country. Adoption of VAT is a welcome step in the process of tax reforms and is expected to pave the way for a modern tax administration in the State. The VAT and other individual state taxes have been analyzed in this report and feasible measures to enhance the tax revenue have been suggested.

Table 15: Trends in Own Tax Revenue

	Share in Own Tax			Share in GSDP			Tax Buoyancy	
	1989 -90	1995-96	2003-04	1989-90	1995-96	2003-04	1985-1995	**1996-2003**
Own Tax Revenue				7.79	5.67	8.52	0.76	**1.51**
Income Tax	26.28	24.02	24.64	2.05	1.36	2.10	0.82	**1.60**
Land revenue	0.47	0.54	0.17	0.04	0.03	0.01	0.77	**0.42**
Stamps & Reg Fee	1.25	1.23	1.05	0.10	0.07	0.09	0.70	**1.78**
State Excise Tax	47.64	39.01	23.25	3.71	2.21	1.98	0.56	**0.92**
Total Sales Tax	17.07	27.11	45.01	1.33	1.54	3.84	1.15	**2.01**
Tax on Vehicles	2.10	4.58	2.52	0.16	0.26	0.21	1.15	**0.74**
Other Taxes	**5.19**	**3.51**	**3.36**	**0.40**	**0.20**	**0.29**	**0.32**	**1.25**

Source: Finance Accounts, GoS, Central Statistical Organisation

3.2 VAT in Sikkim: Introduction

The shortcomings of the sales tax system in Sikkim and the need to transform it into a value added tax as per the decision of the Empowered Committee of State Finance Ministers from April 1, 2005 was discussed in the incepyion as well as interim reports. The problems associated with the origin based tax system in a predominantly consuming state like Sikkim, the narrow base, multiple rates, complicated system and distortions associated with the tax is by now a common knowledge and we do not need to go into these here. The sales tax sytem in operation prior to the reform applied the tax on tax, mark up on tax and tax on mark ups on the one hand and provided significant scope for evasion and avoidance on the other. The discretion involved in the tax administration and constant interwzction between the tax payers and tax collectors implied significant scope for rent seeking and inequity. In short, the tax involved high levels of all the three types of costs associated with any tax system and these are, the collection cost, compliance cost and resource cost to the economy. Our analyses also highlighted the need to initiate preparatory steps including the passing of the law and rules for the administration of VAT, building administrative capacity through training, creating general awareness programmes among the people and members of trade and industry and various steps including the transitional measures to be taken to achieve a smooth transition. In addition, the various preparatory steps to be taken and the detailed work plan for the introduction of the tax were also specifically indicated in some detail. The international consultant with his team of legal and administrative experts and trainers has worked closely with the officials of the department in carrying out these tasks and implementing the reform. While the state government had a clear vision and action plan, the entire introduction of VAT in the state required the 'handholding' and this was done by the International VAT expert along with his team. As the TA was implemented by the National Institute of PUblc Finance and Policy (NIPFP), a leading think tank on fiscal policy in the country, the entire task was not taken as a mere consultancy work, but a genuine opportunity to work with the state in building its capacity in VAT policy and administration.

This report details the progress made in initiating the preparatory steps thus far and implementing them for a smooth transition to VAT. The report also deals with the further initiatives and reforms needed in this area for building capacity for the introduction of VAT including the creation of separate cadre of officials to build expertise in the tax department and administrative re-organisation of the tax department on functional lines to develop the expertise needed, improve accountability and efficiency and minimise the compliance cost..

3.3 Adoption of VAT in Sikkim: Critical Policy and Operational Issues

The previous reports analysed the trends in sales tax revenues and highlighted the salient features of the sales tax in Sikkim. The important issues highlighted in the reports are:

(i) Sales tax is the only important and broad based tax handle with the state government and therefore, any attempt to improve the resource position from own sources of revenue and improve fiscal independence of the State will have to focus on improving the revenue productivity of the sales tax. Moreover, as the potential economic impact of sales tax in terms of creating distortions through cascading and altering relative prices can be large, it is important to calibrate reforms so as to achieve efficiency and equity in tax policy. It must also be noted that Sikkim is largely consuming state with a small population and not very high purchasing power. Yet, it is possible to enhance the volume of businesses as considerable number of people visits the state as tourists. Improving the coverage of the tax and also administration and enforcement can help to improve the revenue productivity. From this viewpoint, switchover to the destination based VAT is welcome.

(ii) The last four years have witnessed phenomenal increase in sales tax revenue with annual average growth rate registering a record 39.7 per cent growth. In fact, the refvenue performance of the state in mobilising revenues from sales tax has been impressive as compared to the performances in other north-eastern states. Much of this, however, has come about due to the individual initiatives of the officials of the tax department, expansion of the scope of tax deduction at source and the introduction of floor rates as recommended by the Empowered Committee of State Finance Ministers. There is considerable scope for enhancing revenues through systemic reforms in the tax system involving both the introduction of VAT, administrative re-organisation and strengthening and improving the information system and enforcement of the tax based thereon.. Not surprisingly, despite the recent impressive performance, the tax-GSDP ratio in the state is still low.

(iii) It was pointed out that the impressive growth performance of revenue in the recent past will provide a significant cushion to the State in switching over to VAT. As the Central government has decided to compensate for the loss of revenue based on the average growth rate of the best three years during the lest five years applied to base year collections in 2004-05, the high growth rate recorded in the recent past provides sufficient insurance for undertaking the reforms. In fact, the average growth rate of the best three years during the last five years works out to 46.9 per cent (Table 16). This provides the cushion needed to facilitate the reforms in the short run. This, however, should not lead to complacency on the part of the tax administration. Continued efforts are necessary to improve tax administration in the state.

(iv) In the long run too, the prospect of improving the revenue productivity is reasonably bright and if appropriate policy and administrative measures are undertaken, the state can enhance its revenues significantly. The critical factor in this will be the decision to phase out the central sales tax (CST) and make the VAT destination based. The central government proposes to phase out the CST in course of time. When it is finally phased out, the tax will become fully destination based and as the goods imported into the state from the rest of the country will not bear the tax, the entire base will be available to the state to tax. It is important to gear up the administrative machinery to deal with that situation.

Table 16 Trends in Sales Tax Revenue

Year	Budget Estimate Rs. Crore	Actual Rs. Crore	Estimate/ Actual (per cent)	Per Cent of GSDP	Growth Rate (Percent per annum)	Buoyancy
1998-99	15.5	13.1	-15.7	1.7	2.8	0.14
1999-00	16	13.6	-14.8	1.6	4.4	0.6
2000-01	16.5	24.5	48.5	2.5	79.6	4.9
2001-02	21.5	35.0	62.8	3.3	42.9	4.4
2002-03	21.5	41.4	92.5	3.6	18.2	2.4
2003-04	27.7	48.9	76.4	3.8	18.1	1.7

Source: Income Tax and Commercial Tax Annual Report, 2003-04, Income Tax and Commercial Tax division, Finance Department, Government of Sikkim.

(v) At present, the role of tax administration in raising revenues is not very significant. Abut 52 per cent of total revenue collected accrues simply from three commodity groups, namely, petroleum products, automobiles and distilleries and breweries. These are in the organised sector and the possibility of tax evasion is minimal. Besides, almost 37 per cent of the revenue accrues to the State government thorough tax deduction at source. The practice of TDS is extremely important in developing economies and the state government has done well to extend the system to all purchases and contracts. At the same time, it is important to point out that the effort of the tax administration is confined to raising 11 per cent of the sales tax revenues. This implies that there is a vast scope for the tax administration to gear up to improve its efficiency and enforcement capacity and thus ensure better compliance. With the introduction of VAT, the administration should surely have larger scope and capacity to increase the revenue from other commodities collected at the field level.

(vi) Improvement in revenue productivity of the tax system calls for reforms in both policy and institutional environment. The first issue is to improve the marksmanship in forecasting tax revenues. The lacunae in forecasting prevailing at present was described in the previous reports. The department should have a good statistical division that would compile proper data, evolve good forecasting techniques and formulate monthly/quarterly targets. Equally important is the need to have a good information system. The system prevailing at present is weak and there is no regular compilation of information needed for the tax administration. Information system is critical to scientific tax administration and enforcement and the State needs to pay attention to this.

(vii) Organising administrative machinery on functional lines is an important pre-requisite of an effective tax administration system. Sikkim is a small state with only 3836 sales tax dealers in 2002-03. Even when the VAT is levied, it is unlikely that the number of dealers will increase substantially. The use of computers in the existing tax administration is minimal and there is hardly any information system worth the name to assist in policy formulation, administration and enforcement of the tax. Naturally, poor information system, lack of automation along with non-specialised administration does not facilitate voluntary compliance. The tax administration to be evolved for administering the VAT will require specialisation in terms of various functions to be performed, increased use of computers and information system and will have to be reorganised on functional lines. This issue is addressed later in the report.

(viii) There is an additional implementation problem of VAT in Sikkim and that has to do with the existing income tax structure. Unlike other States in India, the agreement at the time of accession is that Sikkim will continue to levy its own income tax as long as the State does not decide to give up the right to the Central government to extend the income tax system prevailing in the rest of the country to the State. The system of income tax levied in the State, involves both inequity and distortions. Furthermore, the presumptive income tax levied on traders on their turnover, is merely a duplication of the sales tax. Thus, even when the introduction of VAT by the state minimizes cascading and relative price distortions, the continuance of the turnover tax on traders as a presumptive income tax will continue the distortions, besides making their businesses non-competitive. This could force the trade and industry to work out methods to stay completely in the informal sector and evade the tax. If that happens, it is harmful for the development of the state. It is therefore important to have the tax system that is reasonable and just, and enforce it properly. The improvement in the tax revenue should come from buoyant businness environment and not by levying unreasonable and distorting taxes. From this viewpoint, immediate rationalization of the income tax that is harmonious with the VAT system is called for.

(ix) While in the short term, with the introduction of VAT, the state is not likely to lose revenue, in the medium and long term there could be significant revenues gains. This would come about due to better compliance of the tax due to its self policing nature and minimization of distortions due to cascading. Greater gains to the economy and with that to the VAT revenue will come about when the silk route is opened for businesses across China. In fact, given the small population of the state, encouragement to tourism in the state could also improve economic activity and revenue from the tax.

The inequity of the income tax system for the wage and salary earners has been discussed separately in this report. The exemption limit is too low and does not take into account the basic requirements for living. The schedule has a large number of rates and does not follow a progressive pattern of burden distribution. It has disincentive for large buysinesses to locate inside the state because, these businesses will have to pay the presumptive income tax in the state and regular income tax to the Government of India. It is also in significant variance with the income tax schedule for India and therefore, raises serious questions on horizontal equity with the rest of the country. It is important to work out a harmonised system to ensure that the businesses located in the state do not bear heavier burden of taxation than similar businesses located in other parts of the country

The distortions from the tax arise mainly from the presumptive taxation levied on trade and industry. The administrative difficulties have led to levying the presumptive tax which is three percent of the sales turnover. In addition to the VAT, the trade and industry is supposed to pay three per cent of the turnover as the presumptive income tax. Thus, whether the business makes profits or losses, income tax is levied which is three per cent of the turnover over and above the VAT. Therefore, businessmen argue that it would significantly reduce their profit margins. The measure also discourages major inter-state businesses to locate in the state because, the profit earned is subjected to tax again when the income tax levied by Indian Union is applied if the tax payer is located outside the state and is required to pay tax on his global incomes. The fact that he has already paid the income tax of the state does not give him exemption from the applicability of Indian income tax. This is a confusing situation and needs to be remedied at the earliest. It is important to reform the tax system and find ways to harmonise it to minimise the compliance cost and to ensure that the business men are not discouraged from conducting businesses in Sikkim. In the ultimate analysis, the tax system should not be a constraint in expanding business and trade in the state.

Table 17 Composition of Sales Tax Revenue from Different Sources 2003-04

Sr. No	Source of Revenue	Amount Rs. Crore	Per Cent of Total
1	Distillery/Breweries	6.39	14.0
2.	Petroleum Products	11.68	25.6
3	Automobile Dealers	5.64	12.4
4.	CST from Cardamom /Ginger/Orange etc.	1.55	3.4
5.	Retail Businesses	3.24	7.1
6	TDS from PSUs, NHPC, Pay & AO and Self Drawing Departments	17.10	37.5
	Total	45.61	100.0

Source: Income tax and Commercial Tax Division, Government of Sikkim.

As the TA itself commenced effectively from December 2004, the decision to implement VAT with effect from on April 1, 2005 required the Team to assist the State government in bracing itself for the task within a short time period. Thus, there was very little lead-time for the Team in oreganising the efforts to prepare the state. Therefore, immediate technical assistance had to be provided keeping in view the urgency in the implementation of the tax. As a part of this assistance, draft law had to be prepared immediately and approval by the Legislature and Presidential consent had to be obtained. The international consultant procured the services of a legal expert to prepare the bill, which was passed by the Assembly. This enabled the State government to implement the VAT from April 1, 2005. To facilitate the introduction of the tax, the International expert with the help from the legal expert also drafted the VAT rules and after approval by the Legislature, they too have come into force. In poreparing the VAT law and rules, the assistance received by the Department, particularly Mr. K. N. Bhutia, the Additional Secretary, Income tax and sales tax department was commendable. He actively collaborated with the legal expert in finalising them.

Implementation of the VAT within a short period also required the International expert to immediately build the capacity in the administration on the various conceptual, structural, legal and administrative aspects of VAT. Thus, an important matter that was undertaken with urgency was to impart basic training to the officials of the department on the VAT. Since the time period available was short, capacity building had to be done with urgency. It had also to be sequenced such that the issues requiring immediate attention such as structure, administration and accounting had to be taken first and matters such as risk assessment and auditing was taken up later. This is because, the latter issues would become relevant only after the first quarterly returns were filed and there was some time available for it whereas, the former set of issues had to be immediately acted upon. Two three day training programmes were undertaken for two batches of officials of the department as well as those for the officials in related departments. The International VAT Expert along with a group of other experts on VAT from NIPFP and outside conducted the training programmes in Gangtok. The course outline is given in the Appendix 3.1 and 3.2. This enabled the officials to acquire a basic understanding of VAT in the State including knowledge on administration, accounting and computerisation.

The next stage of training dealt with with the issue of filing returns, accounting and auditing issues, risk assessment for detailed audit, transitional issues, management information system and issues relating to computerisation. As the payment of the tax was to commence at the end of the first quarter in July 31, it was important to conduct training programs to build the state’s administrative capacity on these aspects prior to that. A team of experts led by the International Expert organised the training programme in May 2005.

An equally important pre-requisite for the successful introduction of VAT is the publicity and awareness programme for the trade and industry. Thanks to the initiative taken by the income tax and sales tax department, awareness and general educational programme relating to VAT for the benefit of the members of trade and industry was organised in Gangtok, Jorthang and Singtam. In each of these programmes about 150-200 members of trade and industry including the representatives of industry and trade organisations participated. The programmes helped to provide clarifications on many issues including some of the contentious issues. In this programme besides a general understanding of VAT, specific issues relating to VAT Act and rules in Sikkim, issues relating to registration, assessment, risk assessment for audit, accounting systems, forms, processes and procedures were discussed. Sikkim is perhaps the only state in the country in which the entire State is covered by the awareness programme.

Another important achievement of the TA was to participate in the public education programme relating to VAT in Gangtok. The programme was presided over by the Chief Minister, and attended by the Cabinet Ministers, MLAs, senior retired and serving civil servants, representatives of trade and industry and prominent citizens of Gangtok. The half a day programme and the interactive session helped to clarify a number of important issues of public interest and this has helped to promote public acceptability of the reform. These preparations and capacity building done under the TA has helped ensure enhance acceptability of the tax and improve tax compliance in the state.

With these, except for working out the administrative restructuring plan for the tax department, we have covered all the issues detailed in the TOR in regard to the introduction of VAT in the state. Although not covered in the TOR, as a matter of our commitment to prepare the State adequately well for the introduction of VAT and to see its successful implementation, we have at the request of the state government also prepared the Manual on VAT law and rules. An Expert on VAT law and administration, Mr. Sukumar Mukhopadhayay prepared the Manual with assistance from the International Expert. In undertaking this task Mr. K. N. Bhutia, Additional Secretary of the Income and Sales Tax Department collaborated actively. The Manual will help both the taxpayers and administrators to clarify many of the issues that arise from the interpretation of various provisions of law and rules relating to VAT.

An important aspect of tax administration is the need to have specialized tax administration. This is particularly true of a tax like VAT in which the need for technical understanding on matters such as account keeping, assessment, organizing the information system, risk assessment and audit are all extremely important. It is necessary for the tax administration to develop expertise in all these areas. While a lot of the skills will have to be acquired during the process of implementation of the tax and its actual administration, it is extremely important to provide a framework for tax administration, its organizational system with built in incentives and accountability and scope for specialization. We have, in the interim report provided such a framework for administrative reorganization of the department. In what follows, these are detailed again with some modifications and revisions to facilitate its implementation.

3.4 Administrative Restructuring Plan for Commercial Tax Department

Organising the tax administration for the effective implementation of VAT is, perhaps, the most difficult and challenging task. This is because, tax administration should not merely be seen as the department which merely collects the tax, but has the responsibility to promote voluntary compliance. The department should help the taxpayers to comply with the tax. Furthermore, it is important to evolve tax administration without interfacing the tax payers with administrators and that requires development of the information and account based system of tax administration in the state. Given that there is hardly any information system in place for determining either the tax policy or to aid administration, the system of administration that would rely on computerized information gathered from books of accounts rather than physical verification will have to be developed from the scratch.

Tax compliance is the function of the rate of tax, probability of detection of non-compliance and the penalty rate. In the prevailing situation, as mentioned above, the administrative organisation and information systems are so weak that the probability of detecting non-compliance is virtually zero. Further, even if detected, the delay in the judicial process ensures that the cases do not get decided within a reasonable period and the conviction rate is small. Therefore, effectively, the penalty rate is negligible. In the new system, it is important that both administrative and legal/judicial reforms are important to enhance voluntary compliance of the tax.

While judicial reforms are outside the scope of our assistance, reorganisation of administration is a critical component of improving its effectiveness. Administrative changes to promote voluntary compliance of the tax requires that the administration should be geared to provide assistance to taxpayers to comply with the tax, able to detect the stop-filers and non-compliers swiftly, extends audit coverage such that each taxpayer is covered within a reasonable time period and the penalty rate is deterrent enough to evoke better response. This implies that the tax department can not continue as any other government department but should be a specialised agency capable of dealing with influential and intelligent clientele that can hire the best of brains to evade and avoid the taxes. Besides, the function of the Department is to earn revenue to the State government and therefore, in order to improve revenue productivity, the government should be prepared to invest in a specialised department. This implies that there should be a separate cadre of officials recruited to the department with appropriate qualifications needed to understand economics and accounting framework of VAT, book-keeping, computerised information and net-working and legal processes and interpretations. The cadre should also be provided with proper training not only in the beginning of their career, but also during their service period from time to time to keep up with latest practices in accounting, information system, law and judicial interpretations.

The Department is seized of the importance of having a specialised revenue cadre and has initiated steps to frame service and recruitment rules. It would be desirable to have separate recruitment, promotion and service rules. It is also important to make the revenue department autonomous and keep it away from pulls and pressures of political forces both in formulation of policy and in implementation and enforcement aspects.

While an organised revenue cadre in the future is something that the State government should consider with some measure of urgency, in the immediate context, the issue of remodelling the existing tax department to administer the value added tax on scientific lines is germane. The existing department is manned by a general cadre of State officials. They do not have any special qualification nor are they given any specialised orientation or training to be able to undertake the technical tasks associated with administration and enforcement of the tax. First of all, it is presumed that the task of tax administration doe s not require any specialized skills. Secondly, the transfers to and from the department are done in a routine manner and this has serious implications for capacity development. We understand that a number of officials of the department, some of them senior, were transferred after they have received training in VAT that we had imparted.

Figure 7 summarises the existing administrative organisation of the tax department in Sikkim. The chart details the organisation of senior functionaries. Altogether, the sanctioned strength of the department is 84. At present, there are 86 persons are working in the department. Of this, eight are peons, six are drivers, six are assistant inspectors, one accounts clerk, 12 lower division clerks, two stenographers and one upper division clerk. Besides, there are 18 checkers and 3 data entry operators. Thus, almost 57 positions are the support staff and only 29 are involved in the technical aspects of tax administration of both income and sales taxes in the State.

It is seen that the existing organisational structure is set up predominantly on geographical lines and does not have any commitment to taxpayer services, computerisation of returns or generate a proper information system. Policy, planning and operations are all mixed up. There is no organisational structure to deal with large tax payers even though, it is clear that three commodity groups pay the bulk of the tax as discussed earlier. The prevailing structure is clearly unsuited to deal with information based and a scientific system of tax administration under VAT.

Ideally, the entire tax administration including the personnel to occupy various specialised positions under VAT administration should be designed *de novo*. However, that is not a feasible option and the existing administrative structure will have to be adjusted and modified to build the

VAT administration structure. In doing this, however, it is important to understand clearly the ground realities and special features of the sales tax system prevailing in the State and design the administrative structure to take into account the special features.

In designing the tax administration, it is important to note that Sikkim is a very small State and there were only 3836 dealers in 2002-03. In fact, the number of active dealers has remained virtually stagnant and since 2000-01, the increase was by just about 200 dealers. Even more important feature is the skewed distribution of the dealers in terms of turnover range (Table 18). It is seen that in 2002-03, there were only 49 dealers constituting 1.3 per cent of the total number with more than Rs. One crore turnover and they contributed over 76 per cent of the tax (excluding the tax deducted at source). Furthermore, the dealers with more than Rs. 50 lakh turnover numbered just about 70 constituting less than two per cent of the total number of dealers and they contributed to about 80 per cent of the tax paid. If dealers with more than Rs. 20 lakh turnover are taken, there were only 570 dealers constituting less than 15 per cent and they contributed to over 92 per cent of the tax. Thus, 85 per cent of the dealers have less then Rs. 20 lakh turnover and they contributed less than 8 per cent of the tax.

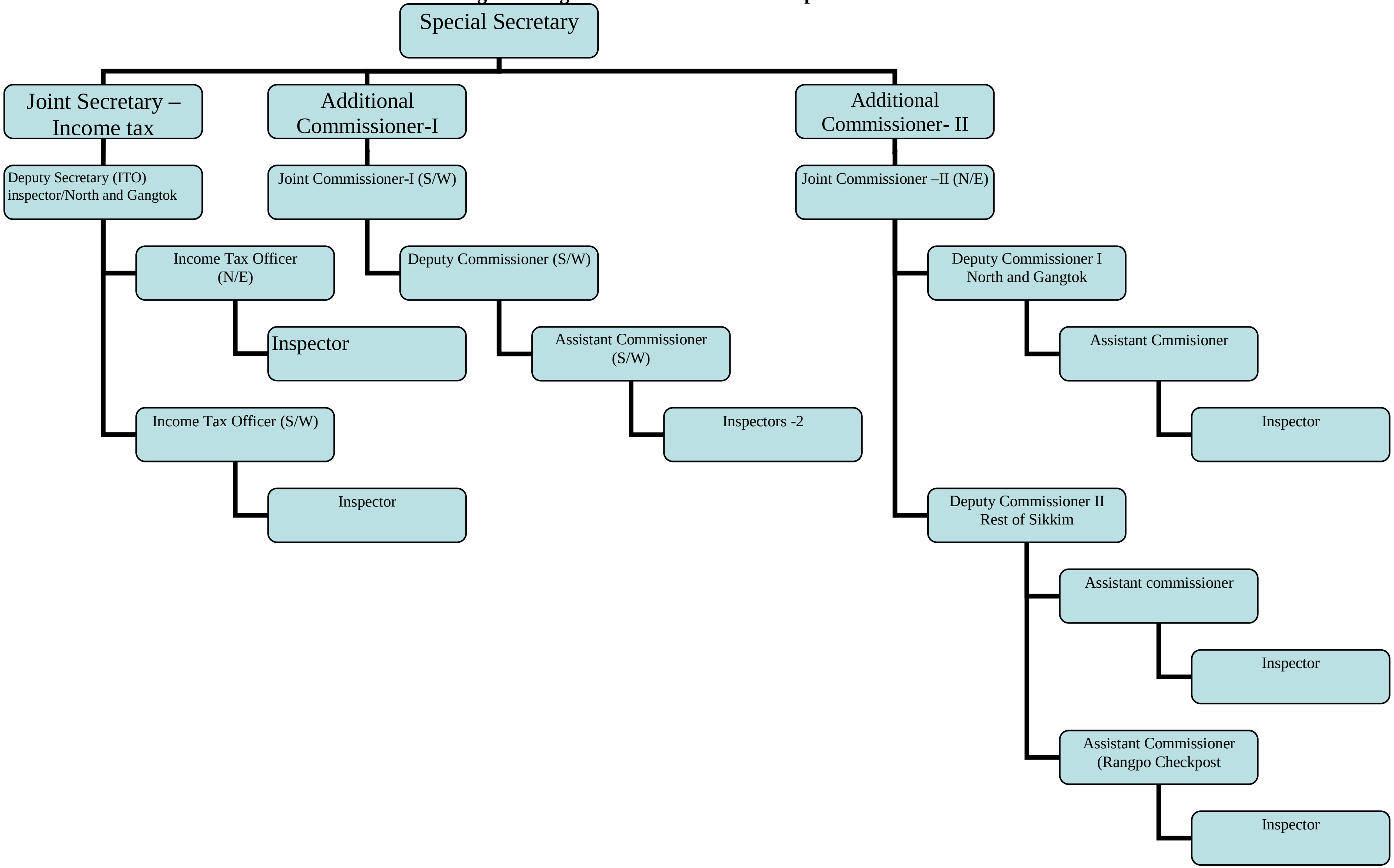
This important information provides very useful inputs for both tax policy and administration. First, the State is not likely to lose much revenue by increasing the limit for registration to Rs. 5 lakh. This will reduce the administrative workload significantly as about 35 per cent of the dealers will go out of the ambit of VAT and the revenue lost will be less than two per cent. Second, it would also be useful to have a composition arrangement for dealers up to Rs. 20 lakh as the administrative burden will come down drastically as almost 3266 dealers out of 3836 will go out of the tax net. While this is a bit exaggerated as the importers, irrespective of the turnover limit will have to register anyway, there is no doubt that increasing the threshold for registration as well as for compounding, would considerably reduce the administrative workload without adversely affecting the tax collections. In any case, there is a strong case for increasing the threshold to Rs. 5 lakhs and compounding facility to Rs. 10 lakhs.

Table 18 Turnover Range –Wise Tax Payers and Tax Paid (2002-03)

Turnover Range (Rs)	No. Dealers	Tax Paid (Rs. Thousand)	Percentage of total dealers	Percentage of total tax paid
0-50000	243	450	6.33	0.17
50001-500000	1071	4544	27.92	1.71
500001-1000000	1358	7445	35.40	2.80
1000001-2000000	594	8755	15.48	3.29
2000001-5000000	500	34235	13.03	12.87
5000001-10000000	21	8194	0.55	3.08
Above 10000001	49	202448	1.28	76.09
Total	3836	266071	100.00	100.00

Source: Income Tax and Commercial Tax Division, Government of Sikkim.

Figure 7 Organisational Chart of Tax Department in Sikkim



The second important policy implication that follows from the table is that there is certainly a need to have a large taxpayer unit. To begin with the unit can service the tax payers with more than Rs. 1 crore turnovers. There are only 49 such dealers and they deserve to be serviced with personal attention. This also implies that these dealers need to be audited systematically; the unit should compile detailed information system of not only these dealers but all the dealers with more than Rs. 50 lakh turnover. This is a feasible proposition as the total number of dealers thus included will be just 70.

3.5 Functional Reorganisation of Administration in the Sales Tax Department

The most important aspect of the administration of VAT is to organise the various activities in such a manner that it would facilitate tax collections and enhance tax compliance and provide the necessary feedback for both policy and operation of the tax system. It must be mentioned that Sikkim is a small state, the number of tax payers are small and it does not need to decentralise the administrative organisation beyond a point. We have therefore, worked out the administrative organisation which keeps both policy, process and operations control at the headquarters, but actual operations are carried out at the regional offices.

In designing the tax administration, it is important to keep the major functions in mind and assign them in such a manner that the comparative advantage of the headquarters and regional offices are taken into account. Accordingly, the major functions of the headquarters organisation summarised in Figure 8 are:

1. Policy aspects;
2. Issues related to law, rules and their applications.
3. Overall management of the tax administration involving recruitment, training and staff development;
4. Overall budget control of the department; Computerisation including hardware and software development, management information system, collation of information and monitoring the check-posts, assistance to tax administration through risk assessment and audit selection.
5. Co-ordination of the functions of the regional offices.
6. Taxpayer services including advisory functions, awareness programs taxpayer education and publicity.
7. Management of large taxpayer unit which should provide a one-stop shop for the tax payers. All functions relating to registration, return processing, payment processing, assessment, auditing and appeals should be undertaken by the unit.

The regional offices, on the other hand will be involved in the actual operations and working out a system for improving tax compliance besides providing the support services. The specific tasks which the regional offices should focus are given in Figure 9 are summarised below:

1. Operation of the tax system includes:
   - (i) Registration;
   - (ii) Returns filing, returns processing and payment processing;
   - (iii) Taxpayer services including advisory functions, field visits for registration, providing and accepting forms (registration, returns form 20 etc,), publicity, awareness and education.
2. Facilitating compliance includes:
   - (i) Assessment (where required)
   - (ii) Auditing (assessment);
   - (iii) Arrears collection;
   - (iv) Inspection, fraud investigation and enforcement.
3. Providing Support services including:
   - (i) Management of check-posts
   - (ii) Support services to management information system.

An important aspect of administrative organisation while undertaking a major reform such as introduction of VAT is to prioritise the operations. For the first year, there will be overlapping of both the systems in some areas. Besides dealing with the stocks and transitional issues, the assessment of the previous years will continue for some time and some staff will have to be devoted for the purpose. One simple way to avoid bulk of the work load is to accept all returns with less than Rs. 20 lakh turnover without detailed scrutiny as assessed unless there are specific reasons for not doing so. This would reduce the work load considerably and would leave only about 600 cases for detailed assessment. This would also avoid unnecessary harassment of small taxpayers and remove uncertainty in their minds.

An important aspect of organising administration in the first year is prioritisation. The deployment of staff will depend upon the urgency of the function to be performed. In the first few months, for example, the taxpayer services will be of immense importance and priority. In the first six months of introducing the tax, advisory function is an important function and this should be undertaken at both central and regional levels. At the regional level, the taxpayers' services unit would have expanded operations. Besides advisory functions, field visits may be needed to check the authenticity of the dealers and providing forms for registration and accepting returns have to be done. The returns filing will start only after the first quarter is over and scrutiny will start only after that. However, in the initial months, the most important tax payer service involves providing advisory services to the taxpayers and this is extremely important and adequately trained personnel should be deployed both at the headquarters and in the regional offices.

While in the new system, self assessment reduces the need for deploying many persons for undertaking assessments, detailed audit of large taxpayers and those selected for detailed audit of those taxpayers chosen on random weighted with risk assessment basis will constitute an important task. Typically, in any tax administration, almost one-third to one-half of the officials is involved in audit cases. These should have the necessary background and training in accounts and audit and investigations and should work closely with the computerisation unit. It would be preferable to place the audit department in the headquarters with sufficient checks and balances to ensure better compliance of the tax with minimum harassment and compliance cost to the taxpayers. Sikkim is a small state and placing the audit in the headquarters under a senior functionary should help to improve tax compliance while minimising rent seeking.

An important issue that requires the attention of administrative organisation is the need to have the large taxpayer unit and taxpayers with more than Rs. One crore turnover should be included in this unit. This unit should be sufficiently staffed with well trained personnel and should serve as a one stop shop to these tax payers. The persons in this unit should have good training not only in accounts but also be familiar with computer operations and should be able to access the information. It should work closely with the computerisation unit. It should be managed by one of the Deputy Chiefs and if necessary by the Chief Executive himself as the revenues involved are large and hierarchical decision making is time consuming. The unit should be located in the headquarters, but the personnel servicing the unit may be posted in the field to facilitate compliance of the tax and to assist the large taxpayers. The location of the unit in the headquarters does not mean that the large tax payers will have to travel all the way to Gangtok to comply with the tax. The purpose of the unit should be to service them as they are valuable taxpayers.

The co-ordination of regional organisations should be done by one of the deputy chiefs who should help to link them with the headquarters. Much of the day to day administration of the tax except those relating to policies, law, keeping the management information system and those involving the large taxpayers should be undertaken by the regional offices and a senior person, of the level of deputy chief should be able to co-ordinate the work among the regional offices and with the headquarters.

Another most important part of the tax administration is the management information system. Computerisation of tax returns will help in building the information. In addition, the information collected at the check-posts should be collated and matched with those of various taxpayers and kept in their files which may be used at the time of assessment and audit. The matching of purchases and sales of some dealers on a selective basis will help to strengthen the voluntary compliance. The system should be geared to help in auditing and in the selection of audit cases based on risk assessment. The information system generated by the unit would also help in formulation of policies and strategies for evolving effective administration. In the initial stages, it would be necessary to outsource the function to the agency providing computerised services, but over time, it would be useful to have some people in the department trained in the system.

So far the issue of re-organising the administrative machinery to improve tax collections and enhance voluntary compliance of the tax has been discussed. No indication has been given about the number of officials to be deployed to carry out each of the functions. First, the overall strength of the unit should be sufficient to manage the administration of the department. There is no need for additional appointments in the department, but it would be useful to induct people, qualified in accounts instead of generalists, through appropriate transfers. They should be given rigorous training on issues relating accounting, audit and law. Assignment of the staff to various departments should be dictated by the workload. As mentioned earlier, in the initial stages, taxpayers services is an important function, but after three months more staff need to be deployed to scrutinise the returns and later assessment and audit. The last function requires the bulk of the staff and proper arrangement should be made to train them. It may be uneconomical to have a separate training facility for the officials of Sikkim itself. It may be useful for the north-eastern States together to create a common training facility.

The Chief Executive of the Tax Department, who at present is a Special Secretary is a critical position and it is important to ensure that the person has specialised knowledge and has a reasonable tenure of office. Considering the fact that VAT is a new initiative and requires specialised technical knowledge, it would be useful to depute him to understand the VAT systems prevailing in European Union at Brussels and in Canada. These are the two countries operating the VAT within a decentralised framework in a federal economy and much will be gained by analysing the administrative organisation, accounting systems, auditing and management information system in these countries. This is extremely important for, the Chief Executive has to trigger change management and this is possible only when he sees ideal operating systems. The ADB could explore the possibility of providing the necessary funds for the purpose.

Figure 8 Headquarters Organisation

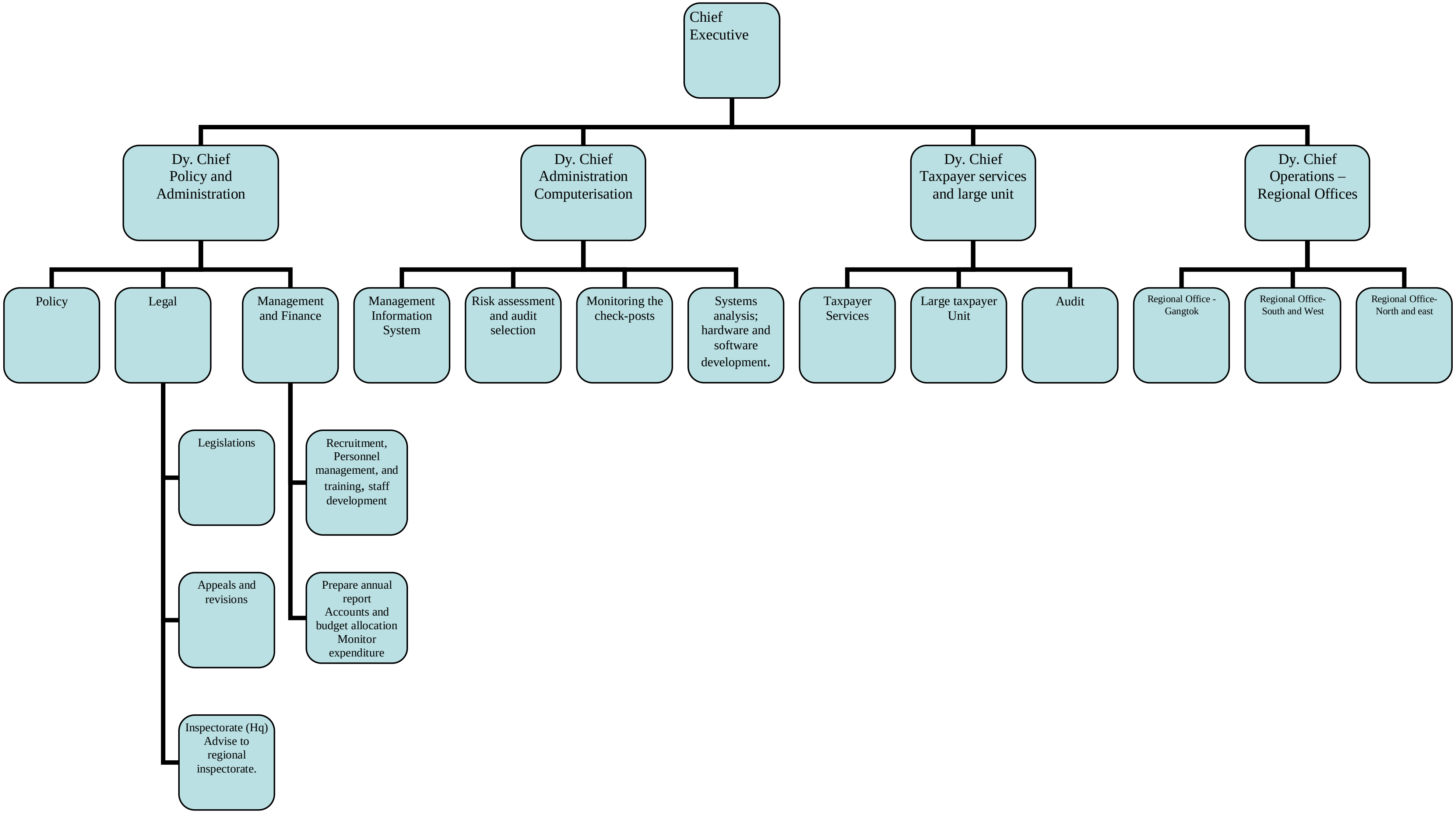
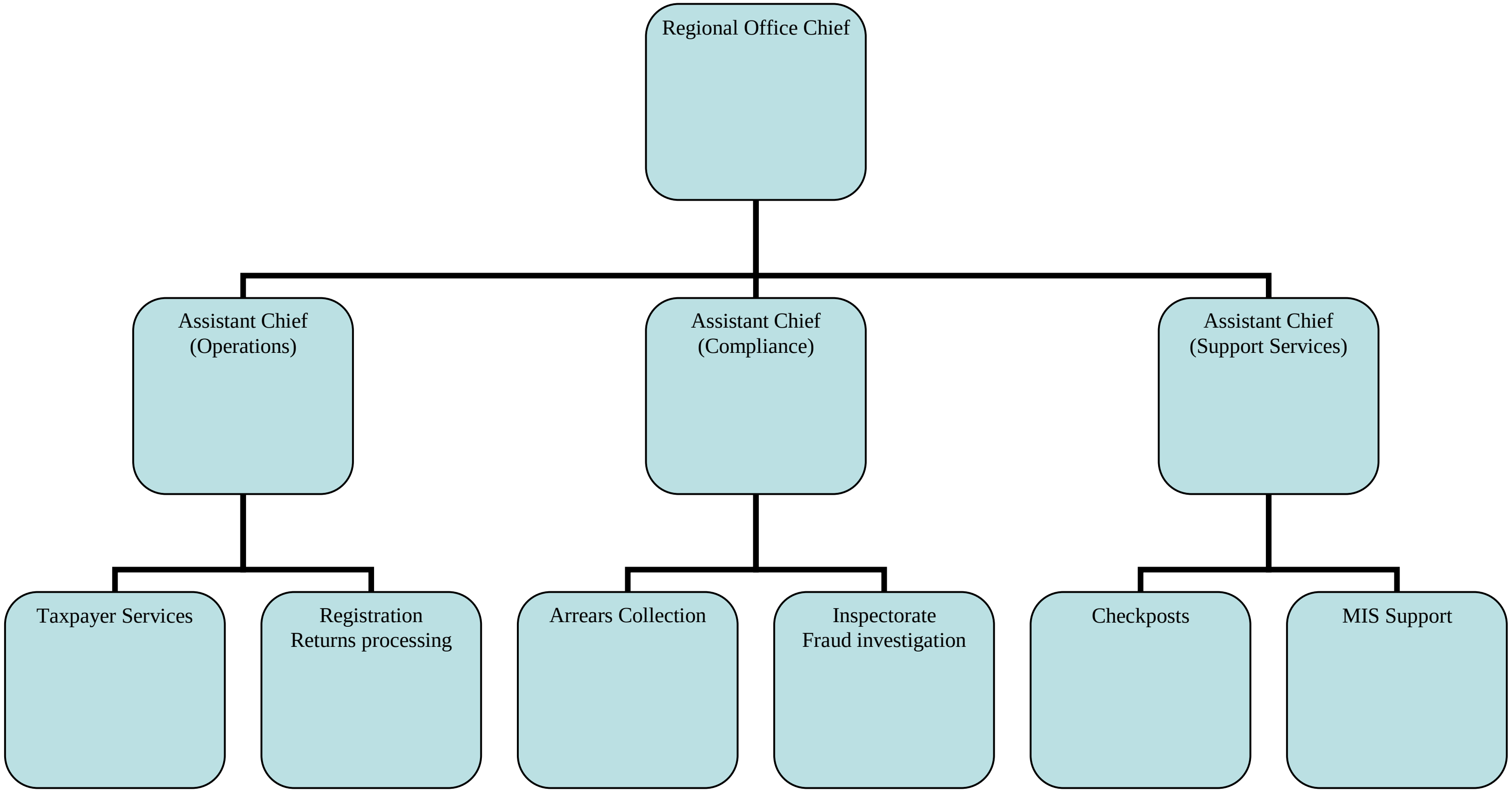


Figure 9 Organisation of Regional Office



3.6. Training and Public Awareness Programme for VAT in Sikkim

As a part of the initiative to assist Sikkim in the transition into a VAT regime, the International Expert in VAT with a team of experts from the National Institute of Public Finance and Policy (NIPFP) organized training programmes for the officials of the Government of Sikkim. Given the timing of the programmes and the impending introduction of VAT, it was felt that the programme should be divided into two parts, an introductory programme and an advanced programme. The former was designed to cover issues relating to the concept of VAT, the design of VAT and an assessment of the proposed structure of VAT, issues relating to inter-state trade and an overview of the issues relating to the administration of VAT, with specific focus on the pre-introduction issues like registration. A brief discussion of transitional issues too was included. The schedule of lectures is given in Appendix 3.1. A second programme was designed to elaborate on various issues relating to the administration of the tax and was held during May, 2005. The second training programme included five broad modules

- Data analysis, MIS and Computerisation for VAT: Issues and options
- Understanding and analyzing accounts
- Risk assessment and audit
- Checkposts, Inspections and Enforcement
- Performance evaluation and performance monitoring

Since the State does not have a dedicated sales tax cadre or even a revenue cadre, the training programmes covered officials from all relevant departments, i.e., officials who could get potentially posted to the department. Further, so as to ensure smooth functioning of the departments even while conducting the training programmes, two programmes for the introductory programme and one programme in the advanced training were organized. The introductory and conceptual programme for both the groups was completed during February 21-23, 2005 and March 2-4, 2005. The advanced training programmes were held on , 2005. Since Sikkim expects the first set of returns to be coming in only by the middle of July, this timing was to ensure that the training was completed before the major tasks within the new tax regime were initiated.

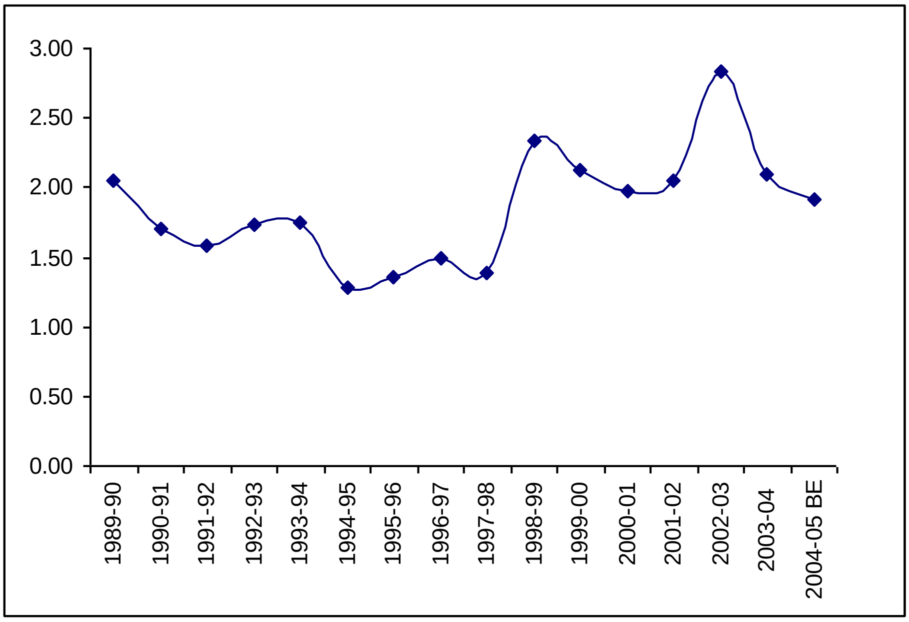
Each of the introductory programmes had 32 participants. The lectures were organized so as to encourage active interaction with the participants. However, given the varied background of the participants, the discussion had to be kept simple in regard to some points to ensure that the basic message was clear to all the participants. In order to assess the effectiveness of the programme, a feedback form was circulated among the participants, at the end of the third day. The participants were asked to assess each lecture and in addition, provide overall comments on the programme. The summary of the assessment of individual lectures is provided in Appendix 3.2. The feedback received at the end of the programme elaborated the need to have longer programmes and more frequent programmes, especially the first year of the introduction of the new tax. Further, there was an expressed need for enhanced focus on the technical computation, so that the concepts become completely clear.

3.7 Taxes on Income Levied Under State Laws

Income tax under state laws in Sikkim has been a unique feature of the State as it is not governed by the Central income tax laws. At the time of its merger with the Indian Union, like many other Laws, the prevailing income tax laws and the power to collect income tax remained with State. The Central Income Tax was extended to Sikkim in as late as 1991, which was challenged by the State in Court. Though the State has withdrawn the case in 2004, a practical solution has not been reached and the State continues to collect the tax.

The State has collected around Rs.4 crores during 1990-91, which increased to about Rs.27 crores during 2003-04. Share of State income tax in GSDP was 2 percent in 1989-90, which has declined to 1.4 percent in 1997-98 after which it has shown some improvement and during 2003-04 it was little more than 2 percent (Table 15, Figure 10). The annual growth of income tax in the state has been widely fluctuating that contributes to the volatility of the own tax revenue. The improvement of income tax collection during 1997-98 to 2002-03 heavily depended upon tax collections from lottery income. The improvements in tax collection during late nineties and after that resulted in a higher buoyancy of more than unity during 1996-97 to 2003-04 as compared to an earlier period of 1985-86 to 1994-95 (Table 15).

Figure 10 Income Taxes under State Laws Percentage to GSDP



The income tax in the State is basically collected from salary income, lottery income, business, and contract works. The income tax from salary both in Government and private sector, all kinds of supplies to the Government, and the tax from contractors are deducted from the source (TDS). The receipt of income tax from various sources during the year 2003-04 is given in Table 19.

- **Salary:** The rates of the income tax on salary income ranges from 2% above the income Rs.2400 to the highest rate of 10% on the income above Rs.6000 per annum. There are 5 rates of tax altogether in this category and the tax is deducted at source. A person getting a salary of Rs.200 per month is liable to pay tax under the State laws. This tax structure is not progressive as the highest tax rate is only 10%. Once again there are exemptions available in the form of savings schemes to GPF and LIC up to the limit of the basic pay. Persons in the higher income group can avail of the tax exemptions by saving in the instruments allowed and pay a very little tax as the highest tax rate is low.
- **Lottery Income:** Lottery income is subjected to a 10 % rate of income tax. This tax is levied on the prize money and deducted at source. Non-Sikkimese persons winning the lottery pay income tax under Central Income Tax Laws as well.
- **Supplies to Government and PSUs:** Income tax at the rate of 3 % of the value of goods supplied by a supplier to a Government department is deducted at source at the time of payment made for such supplies. It is the responsibility of the departments receiving the supplies to deduct the income tax from their bills.
- **Business:** The income tax from the business is not based on the income but on the gross turnover of the dealer thus making it a turn over tax (TOT) for all practical purposes. The tax rate on business (gross turnover) is 3 percent and there is provision of exemption limit up to Rs.10, 000. The turn over tax on business has the potential to distort the business activity and acts as a disincentive for expansion of production and trading activities in Sikkim. The implementation of Value Added Tax will face problems due to the existence of this TOT on gross turnover.

  Sikkim is a major producer of cardamom and ginger in the country. The same turnover tax at the rate of 3 % is levied on it when it is exported out of the state. The tax on cardamom and ginger is collected at the check posts situated in Rangpo and Melli.
- **Contractors:** A tax at the rate of 3 % is imposed on contractors and deducted at source from the bills submitted by the contractors to any Government departments.
- **Property Tax:** The house property tax is levied on rent income. This accounts for a small share of total income tax and yield from this source is not stable. Tax on rent income is only collected in urban areas.

Table 19 Income Tax Realized from Different Sources

Rs. Lakh

	1999-00	2000-01	2001-02	2002-03	2003-04
Lotteries	249.60	140.44	65.32	977.06	410.09
Breweries	19.39	24.11	28.93	30.95	30.00
House Property	4.53	3.20	1.58	5.24	1.59
Cardamom and Ginger	35.47	110.81	170.35	133.92	149.65
Contractors, ITCC Charges	0.88	1.60	4.33	3.69	5.85
Salaries-Pvt. Sector/PSUs	70.25	69.15	73.42	70.10	73.11
Supplies-Pvt. Sector/PSUs	16.24	141.73	182.49	92.00	141.01
Pvt. Schools- Salaries				9.07	21.11
Business and Hotels	34.00	76.49	85.42	84.41	270.97
Receipts through Monitoring				90.89	
TDS by Pay & Accounts- Salaries & Supplies	1065.41	916.77	995.42	1159.00	1045.84
Self Cheque Drawing Departments	288.62	443.91	595.63	645.02	605.43
Miscellaneous Receipts				58.69	
Total	**1784.38**	**1928.22**	**2202.90**	**3360.06**	**2754.65**

Source: Income Tax and Commercial Tax Annual Reports, Government of Sikkim

The structure of income tax in Sikkim has been designed keeping administrative simplicity in mind. More than 80% of income tax under state laws is collected at the source. However, this tax structure does not confirm to basic canons of the tax system and has the potential to distort economic decision making especially in production and trading activities. The major problem relating to this tax is the turn over tax levied on the businesses. Companies or trading houses having branches in Sikkim have to pay income tax under Central laws on their whole income. This acts as a disincentive for expansion of business activity in the State. At the same time the suppliers have the tendency to inflate their bills on sales to Government department to factor the TOT in. The tax on salary income is not progressive and with the exemptions available on savings schemes, the people in higher salary bracket hardly pay any tax as compared to their counter parts else where in the Country. There have been problems in the collection of taxes due to claims of many agencies having paid tax under central laws.

After the withdrawal of court cases by the State Government challenging the extension of Central Income Tax Laws, the Central Government has constituted a committee with the members from both central government and State government to resolve issues pertaining to Centre-State coordination of income tax in Sikkim. The Committee has not reached in any conclusive decision as yet. There has been a demand to provide preferential treatment to Sikkimese nationals in payment of income tax as is the case in other North Eastern States.

The Government of Sikkim, in order to augment the collection from this source, has been trying to improve its tax administration. The proposed Government initiatives to improve tax administration in the State involve forming a revenue cadre, computerization of the department, providing better check post facilities, restructuring of the administrative set up, training of the tax officials, and settling tax disputes. Strengthening the tax administration in the State is a very important and concrete step need to be taken in this direction.

Income tax collections in revised estimates for 2004-05 as compared to the previous year show only a marginal increase from Rs.26.76 crores to Rs.27 crores. The increase could have been large had there been no decline in tax collection from lotteries. The fluctuating growth of income tax underlines the need for a serious look at the structure of the tax itself in addition to the proposed strengthening of tax administration. Resolution of issues pertaining to extension of Central income tax to the State will give a definite course to income tax in the State.

Implementing central income tax in Sikkim has got many advantages that the State should take note of.

- The first and foremost, under central income tax the provision of TOT will go and the disadvantages that the Sikkimise traders face as against the neighbouring state – West Bengal will be reduced.
- The tax system will be progressive and people at the lower end will get reprieve. Given the present central income tax structure with the provisions of threshold exemptions, exemption in lieu of saving, special treatment to women and senior citizens, and tax rates, adopting it will be attractive in general.
- There may be revenue gains for the state. The notion of loss of revenue due to imposition of Central income tax in the State may not hold good in the present scenario. The TfFC has increased the share of States in sharable pool of Union tax from 29.5 percent recommended by the EFC to 30.5 percent. Following the recommendations of TfFC the Union Government has fixed the share of Sikkim an amount of Rs.42.11 crores in the shareable income tax in the Budget for the year 2005-06 as against Rs.29 crores projected by Government of Sikkim for the same year. The TfFC has assumed a growth rate of 12 percent for the GDP and a buoyancy of 1.4 for income tax while projecting the Union Government's finances for the period 2005-06 to 2009-10. TfFC has also pointed out that

the projections carried out by them are modest as compared to the reform scenario of the central government that was envisaged in the medium-term fiscal policy statement and is more likely to be achieved.

- The income tax collection expenditures of the state government will be saved.
- The actual collection under central income tax from Sikkim will be less than what the state will get under tax devolution formula. The disposable income of people will be more as fewer people will be paying tax under central income tax.
- Last but not the least, if the state government becomes successful in getting tax exemption facility for the Sikkimise origin people in line with the tax exemption provisions granted in other north eastern states, very few people will actually pay central income tax.

Even if the State laws are to continue, immediate attention needs to be given to the Turn over Tax existing under state laws. After the implementation of VAT, it will be possible to ascertain the profits margins of traders on the basis of which income tax can be levied. The rate of tax on salary income needs to be revised to make it progressive, which is a major feature of a direct tax. The threshold limit for levy of income tax could be fixed at the per capita income of the state and a simplified rate structure is applied above that income. The demarcation of urban areas under the ensuing Municipal Act also will be helpful in raising the tax from property sources.

3.8 State Excise Duty

The State excise duty is levied on the production and sale of alcohol in the form of IMFL, Beer, country liquor and alcohol used to produce medicine and toiletries. The levy of duty on alcohol used in production of medicine and toiletries is controlled under Central Medicine and Toilet Preparation Act – 1955 (MTPA) wherein the duty is fixed by the Central Government and the State collects the tax and keeps it. In addition to levying excise duty on alcohol, the State has the responsibility of controlling the capacity of distilleries, breweries and blending units and licensing the production and expansion of capacity. Sikkim produces both IMFL and beer, which are exported to other states and abroad. The beer produced in Sikkim has niche markets in many European countries and in USA. The State has one brewery, one distillery and two bottling plants. The inputs for the production of IMFL and beer are mostly imported.

The collection from state excise in 2003-04 was Rs.25.25 crores and the revised figures for 2004-05 were Rs.29.5 crores. The relative share of revenue collected from state excise in revenue raised by the State has been declining over the years, having gone down from 48 percent to 23 percent during 1989-90 and 2003-04. As percentage to GSDP it has declined from about 4 percent to 2 percent (Table 15, Figure 11). Given the small size of population in the State, where consumption has saturated, its relative importance has dwindled as compared to other major taxes whose shares have increased because of increasing economic activity. Like other state taxes, annual growth of excise duty has also been erratic. Though its buoyancy relative to state income showed some improvement, it still remains below one implying a less buoyant source of revenue.

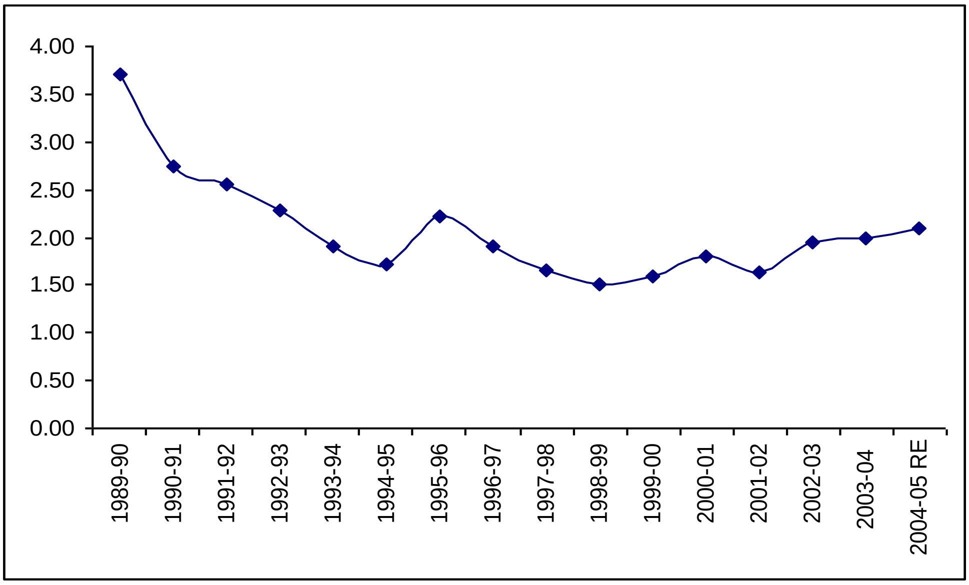
The rate of excise duty on IMFL bottled by local companies is Rs.60 per LPL. The IMFL imported from outside on an average attract little higher rate of Rs.75 per LPL. There are some variations in the rate depending upon the brand of the liquor. Beer, whether manufactured in Sikkim or imported is taxed at Rs.70 per LPL. The excise duty on consumption by defence personnel is lower. The tax rates in Sikkim have been on a lower side and therefore, inter-state smuggling has never been a problem.

The excise duty is collected in advance from the dealers in the case of imports. The dealers get an import license in which the amount to be imported is registered and tax is paid in advance. The local consumption of liquor is also taxed in advance when the liquor is lifted from the warehouses where it is stored. In addition to excise duty, the dealers pay import license fee, license fee for liquor shops, warehouse fees, brand registrations fees, and export pass fees. There are 1163 liquor outlets in the state. The shops are not auctioned as the number of shops in any locality is not fixed. The issuing of license for liquor shops is open in the State. However, recently the State Government has enforced an undeclared ban on issuing new licenses for liquor outlets. The license fee for liquor outlets has been revised upwards this year in which three rates – Rs. 7, 000, Rs.5, 000, and Rs.2, 000 have been prescribed based on the locality where the outlets exist. A higher rate of Rs.10, 000, Rs.7, 000, and Rs.5, 000 has been imposed on Bars existing in different areas of the State. The export pass fee of Rs.2 per case has been levied only on beer and for export of IMFL it is nil. Exempting IMFL from export pass fee is basically aimed at encouraging exports and become competitive in price terms and thus gain advantage in outside markets. However, import pass fee of Rs.10 per LPL is being levied for all kinds of imports of liquor.

The excise duty and other fees are low compared to some other states. The excise revenue depends upon heavily the local consumption and export of some brands of Sikkimise liquor. The defence consumption is another source of revenue for the state. Of late the defence establishment in the State has stopped procuring liquor from the local market and instead has been importing from outside. This implies the State gets import license fee from defence imports, but the local sales have suffered to that extent. The strength of Sikkim lies in its export of IMFL and beer. As against an import of 32, 00 cases of IMFL in 1993-94 the State has exported 2.96 lakh cases of

IMFL and 16 lakh cases of beer. Sikkim faces competition in neighboring states from the import of cheap liquor from Bhutan

Figure 11 State Excise Duty Percentages to GSDP



Given the current level of sale of liquor in the local market, growth of revenue collection is not expected to be faster and will depend basically upon the exports. Periodic revision of excise duty rates, licence fees and other related fees should be undertaken. The export pass fee may be levied on IMFL as well. Some kind of incentive schemes could be designed to encourage manufacturers to start producing medicine and toiletries that use alcohol. As was indicated earlier, the tax rate on the use of alcohol on preparation of medicines and toiletries is fixed by the Central Government under the MTPA and the State Government may be well advised to take up the matter with the Central Government.

3.9 Motor Vehicle Tax

Motor vehicle tax collection has risen in nominal terms from Rs.37 laks in 1990-91 to Rs.1.5 crores in 2000-01 and further to Rs.2.7 crores in 2003-04. Its share in own tax revenue was 2 percent during 1990-91 which has risen marginally to 2.5 percent during 2003-04. However, it has not been a major source of revenue for the State and its share in GSDP is around 0.2 percent (Table 15). The buoyancy of motor vehicle tax relative to GSDP has gone down during 1995-96 to 2003-04 as compared to the period 1989-90 to 1994-95.

The revenue from Motor Vehicles' Division mainly comes from registration fee, token taxes, driving license fee, route permit fee, fitness of the vehicle certificate, and other miscellaneous receipts. The registration fee is collected by the Head office in Gangtok and all other taxes are collected both by the Head office and Regional Transport Offices.

The registration fees levied in the State is specific in nature. For registration fees purpose, the vehicles have been categorized mainly into four types – two wheelers, four wheelers for personal use, four wheelers for commercial purpose, and goods carriers. In the case of two wheelers, registration fee is flat Rs.268 and for four wheelers for personal use there are two flat rates, Rs.860 on small vehicles and Rs.956 on bigger vehicles. Four wheelers used for commercial purpose attract two tax rates – Rs.2232 and Rs.3105 differentiated on the basis of size. In the case of goods carriers like trucks the registration fee is determined on the basis of unladen weight; the rates varying from Rs.2335 to Rs.6401.

The tax on passengers and goods is known as 'Token Tax' in the State and is collected on a yearly basis. The token tax on vehicles not used for commercial purpose is levied at flat rates and there are 10 rates of tax under this category ranging from Rs.108 to rs.897. The differentiation in tax rates levied is on the basis of whether it is a two-wheeler or a four-wheeler and whether it belongs to a private person or to a registered company. The tax rate is higher in the case of vehicles belonging to registered companies. The token tax on vehicles carrying passengers is determined on the basis of seating capacity and also on the kind of vehicles – omni bus, jeep, two-wheeler, and other four-wheelers. Vehicles for transport of goods like trucks, trailers and tractors pay token tax on the basis of registered laden weight.

Vehicles with national permit do not ply in Sikkim due to their higher unladen weight. So the interstate vehicles that ply in Sikkim come from West Bengal. There is a reciprocal arrangement between the Governments of Sikkim and West Bengal to allow interstate vehicles to ply in both States in the ratio of 2:1. The number of vehicles to be allowed to ply both sides is determined from time to time. There is no interstate payment of passenger and goods tax under this arrangement. However, the Sikkim Nationalized Transport department, a division of transport department, collects a supervision charge on vehicles carrying goods from Siliguri to Sikkim at Rangpo Check post at the rate of 25 percent of hire charge of the vehicles.

Revenue collection from motor vehicle tax has not been buoyant as compared to the rise in State income. Though it has increased in nominal terms over the years, the potential to collect more revenue still exists. The specific nature of the tax structure in respect of registration fees and token tax for vehicles not used for commercial purpose needs to be changed and the principle of *ad* *valorem* tax structure should be adopted. There is no reason for the same flat tax rate to be levied on high end luxury vehicles and on entry level small vehicles.

3.10 Land Revenue, Stamps and Registration Fees

Land revenue constituted only Rs.18 lakhs and the contribution from stamps and registration fees was Rs.1.14 crores to the State exchequer in 2003-04. Both taken together form around 2 percent of own tax revenue. Given the hilly terrain of Sikkim, the cultivable land areas are all terraced on the slope. Nearly 85 percent of land area is forest area and out of rest 15 percent 11 percent is cultivable land. The land area in the State leaving forest, are classified into three main classes – I, II, and III and each of these are categorized into three grades, A, B, and C. The land classification is carried out based on productivity, location, and road connectivity. The land situated at a lower altitude has more productivity as compared to the lands at higher altitude. The class III land is basically barren land. The land valuation was revised in 2004 in which the highest value of land in the first category was fixed at Rs.7 lakhs and the value of land in the last grade (class III) was fixed at Rs.1 lakh.

Land settlement operation in the state was carried out during early eighties. However, one major achievement of the Government of Sikkim was the computerization of land records in the State. Now in all the four districts land mutation certificates and other related documents are generated by the computer. The process of computerized mutation is being extended to the sub-divisions. Due to lack of internet connectivity the district centers and the computer center at capital could not be connected. The computerization of land records has paved the way for upward revision of both land rent and stamps and registration fees during 2004-05.

The rate of land revenue was revised upward in February 2005. There are now large numbers of rates starting from Rs.30 per hectare for wet land in Grade-A variety to Rs.3 per hectare for barren land. Many other fees for land related certificates, like mutation fee, khaitan fee, property certificate are either introduced or increased. Revenue from this source has been fluctuating over the years. One of the reasons for fluctuating revenue from land revenue stems from acquisition of land by various Government departments time to time. At the time of acquisition of any land the concerned department has to deposit 2.5 percent of land value and 40 years of land rent at the existing rate in the exchequer.

Registration fee for transaction in land is levied at the rate 4 percent on the declared value of land and stamp duty is levied at the rate of 1 percent. On the gift deed earlier no registration fee was required. In the revision of tax rates in 2005 a 5 percent registration fee as per rate approved by the Government for acquisition of land was levied on such deeds. The revenue from stamps and registration fees depends upon the transactions in land. The stamps and registration fees in the State though lower as compared to many other States looks reasonable and do not induce tax evasion.

The problem with stamps and registration fees is the undervaluation of land. The valuation of land fixed by the state was not scientifically done. The valuation of land is very significant that affects the collection of registration fees at the time of sale of land.

Box IV
Sikkim State Taxes: Reform Agenda

Value Added Tax (VAT)

- As the VAT was to be implemented 1st April 2005, the Technical Assistance (TA) team provided inputs treating it as immediate priority
- VAT implementation plan was prepared by sequencing the time table for implementation
- VAT Law and Rules were prepared for approval of the state legislature
- VAT manual was prepared to help the VAT administration on various legal provisions and submitted to the State Government
- State officials were trained on VAT structure, Administration and Accounting, Risk assessment, auditing, MIS, and computerization
- Public awareness programmes were conducted for dissemination of information
- Administrative and functional reorganization plan for commercial tax department was prepared to create a modern and efficient tax department in the state that will help implement VAT successfully
- Specialized 'revenue cadre' to be recruited with appropriate qualifications on economics and accounting framework of VAT, auditing, computers, and legal processes

Other State Taxes

Income Tax

- The State government may consider adopting central income tax. The advantages of adopting central income tax are;
  - Turn over tax (TOT) will go along with the disadvantages faced by Sikkim traders vis-à-vis neighbouring State of West Bengal. This will also be helpful in attracting business and trading activity to the state
  - The tax system will be progressive
  - Revenue gain
  - Collection expenditure of state income tax will be saved
  - The disposable income of people will be more
  - Successful negotiation with Government of India to get tax exemption facility will further reduce tax burden on the people of Sikkim.
- If the state laws are to continue, then;
  - State tax structure should be rationalized
  - TOT to be removed
  - Tax rate needs to be revised to make it progressive
  - The threshold limit could be fixed at the per capita level
  - Simplification of tax structure is required
  - State income tax should be congruent with the Central income tax.

State Excise Duty

- Periodic revision of excise duty, license fees and other related fees
- Export pass fee may be levied on IMFL as well after calibrating its impact on exports
- Incentive schemes could be designed to encourage manufacturers to start producing medicine and

Box IV
Sikkim State Taxes: Reform Agenda

toiletries that use alcohol

Motor Vehicle Tax

- The specific nature of the tax structure in respect of registration fees and token tax for vehicles not used for commercial purpose needs to be changed and the principle of *ad valorem* tax structure should adopted
- A weighbridge should be constructed in Rangpo check post to detect the laden weight of trucks carrying goods

Land Revenue, Stamps and Registration Fees

- The valuation of land in different areas should be carried out in a scientific manner that reflects its true market value

3.11 Non-tax Revenue: Sikkim

Non-tax revenue in States is generally characterized by a mix of assorted receipts like interest receipts on loans given by the state government, dividends on equity investments, user fees and tariffs on services provided by the governments that spans over social and economic sectors, royalty on mines and minerals, receipts from forestry and wild life, lottery income and any other miscellaneous receipts. In Sikkim in addition to these sources of non-tax revenue, receipts from power and transport sectors are also classified under non-tax revenue as these are managed by government departments. The state electricity boards and transport corporations in other states are managed as separate corporations and their revenue and expenditures are not reflected in the state budget directly. The non-tax revenues assume significance in finances of state governments as these contribute to improvement of the quality of services provided y the government.

Non-tax revenue collected from various services provided by the government depends on the price fixed by the government that has remained very low and the increasing cost of provision as well as maintenance of such services is being met from the state budgets. The implicit subsidies arising out of low cost recovery rates (user charges) have increased over the years contributed to the deterioration of finances of state governments. Low user charges are widespread phenomenon not restricted to Sikkim alone. Low user charges are justified on the ground that the Government has the social responsibility for providing basic services like education, health drinking water and so on and so forth and help under privileged sections of the society. However, the proliferation of unjustified subsidies in various sectors and populist policies has adversely affected the quality of government services and the people who solely depend upon it.

One important feature of non-tax revenue in Sikkim is the significance of income from lottery, which has not proved to be a stable source of revenue. The receipt from lottery has been fluctuating since 1999-00 due to competition from other states and ban on operation of lottery in many states. The net receipts from lottery after declining from Rs.28.12 crores in 1999-00 to Rs.17.31 crores in 2000-01, jumped to a high of Rs.84.24 crores in 2002-03 and then crashed to Rs.31.41 crores in the next year. The fluctuating receipts from lottery not only imparted unpredictability to own revenues of the state, it also contributed to over assessment of state revenues by the TfFC that eventually reduced non-plan revenue deficit grant for the period 2005-06 to 2009-10 (the TfFC transfers to Sikkim has been examined in a later chapter).

The receipts from the non-tax sources relating to recoveries from government services have been very low as compared to the GSDP of the state (Table 20). Non-tax revenue as percentage of GSDP of the State varies between 6 to 7 percents. However, if the receipts from lottery, power and transport are removed, the share comes down to 2.5 percent. The income from lottery (Classified under general services) and receipts from power and transport departments (classified under economic services) constitutes bulk of non-tax revenue. Non-tax revenue (including net lottery income) constitutes about 10 percent of total revenue of the State but for the years where there is large lottery income. For instance in 1999-00 the lottery receipts constituted 43 percent of total non-tax revenue and in 2002-03 this share was 59 percent.

Table 20 Non-tax Revenue in Sikkim

Per cent to GSDP

	1994-95	1999-00	2000-01	2001-02	2002-03	2003-04
Non-tax Revenue *(including net lottery income)*	**6.36**	**7.71**	**6.72**	**6.63**	**12.43**	**7.46**
Interest Receipts, Dividends & Profits	0.25	0.15	0.46	0.56	0.77	0.27
General services	2.05	1.03	1.12	1.03	0.97	0.93
Social services	0.08	0.10	0.16	0.17	0.20	0.21
Economic Services	3.98	3.44	3.37	3.59	3.59	3.36
Non-tax Rev. *(net of Power, Transport & Lottery)*	1.79	1.96	2.71	2.46	2.51	2.56
Net Lottery income % of Non-tax Revenue	***25***	***43***	***26***	***24***	***59***	***33***
Receipts from Power & Transport % of Non-taxRev.	***47***	***31***	***33***	***39***	***21***	***33***
Non-tax revenue % to Total Revenue	***10.69***	***12.13***	***10.27***	***9.48***	***15.79***	***10.57***

3.11.1 Social and Economic Services: Revenue Consideration

Public provision of services in social and economic sectors such as education, health, water supply and sanitation, agricultural services, roads and bridges assumes significance in a state like Sikkim. Since its integration with the country in 1975, the state has been trying hard to improve the non-existent public services. Given the hilly terrain of the state, scattered settlements, and other physical and climatic constraints the cost of provision of services are higher.

In the case of providing education, the state has made progress since the time of merger with India. The total literacy rate has shown remarkable improvement in the state from 17 percent in 1971 to 70 percent in 2001. Both the rural and female literacy have increased during this period. The state government runs most of the educational institution with low private participation. In addition to modern educational institutions, the government also promotes traditional educational institutions like Sanskrit Pathasalas, Budhist monastic schools and madrasa. The state has made significant improvements in primary education and reduced the gender gap. The dropout ratio in the state has also been declining. The teacher pupil ratio in the state is one of the lowest; 17 at primary level, 19 at upper primary level, and 17 at secondary level as against the national average of 40, 30 and 29 respectively. The education provided by the government is almost free. Except a nominal admission charge no other fee is charged in all levels of schooling. In the primary level, free text books, uniforms are also provided. There is a provision to recover at least 50 percent of the cost of text books that rarely is fulfilled.

The health care facilities in the state have also witnessed improvement since 1975. The over all health indicators of the state compares favourably with the national average except that of the sex ratio, which is 875 in Sikkim against 935 of national average in 2001. The crude birth rate, child mortality, fertility rate and all other health indicators have improved in the state and are better than national average. The health infrastructure in the state includes one state referral hospital, 4 community health centers, 24 PHCs, and 147 PHSCs. Once again there are very few charges in the hospital. The cost of health care for the state increases due to patients being referred outside for which the government bears the cost.

Other non-tax receipts in the areas of water supply, urban development, agricultural services, and irrigation are minimal. Non-tax revenue as percentage of revenue expenditure is given in Table 21. In this table both revenue and expenditures of two departments, namely, transport and power are excluded to get a picture of general service provision by the government and the returns. The transport and power are generally provided by corporation outside the state budget. However, in

Sikkim as these two services are controlled by the government departments, the receipts from bus tickets and the electricity bills are also classified as non-tax revenue.

Table 21 Non-Tax Revenue percentage to Revenue Expenditures

	1993-94	1999-00	2000-01	2001-02	2002-03	2003-04
Social Services	**0.51**	**0.42**	**0.83**	**0.81**	**0.99**	**1.00**
Elementary education	0.03	0.05	0.35	0.09	0.14	0.06
Higher Education	0.33	0.19	0.47	0.72	0.47	1.15
Sports, Art & Culture	0.63	0.18	1.55	0.54	0.54	0.64
Medical and public health	1.07	0.42	1.15	0.93	0.90	1.14
Water supply & sanitation	1.78	2.52	3.72	4.08	6.27	5.77
Housing	0.00	1.39	1.68	0.83	1.21	0.71
Urban development	0.00	0.00	0.00	0.00	0.00	0.00
Information and publicity	1.86	4.93	7.26	5.02	5.18	4.28
Labour and employment	6.92	3.91	5.25	6.31	4.82	4.04
Economic Services	**8.49**	**8.02**	**10.30**	**9.31**	**7.82**	**7.88**
Agri. & allied Services	9.49	14.08	15.88	13.55	13.67	14.15
Crop husbandry	3.78	1.10	2.75	2.94	3.24	1.94
Animal husbandry	3.11	2.09	2.12	2.89	2.56	2.59
Fisheries	0.65	0.70	0.39	1.53	0.32	0.45
Forestry and wild life	10.68	33.72	35.25	28.63	35.86	39.61
Plantations	157.86	167.56	140.06	111.78	84.82	84.40
Other Agricultural Dev	1.53	0.52	0.95	0.53	1.25	1.46
Rural development	0.21	0.63	0.59	1.95	0.53	1.49
Irrigation and flood control	0.06	0.73	4.52	1.22	0.78	1.32
Village and small Ind.	13.37	8.72	12.08	10.65	3.15	2.95
Other industries	9.41	2.95	1.73	2.07	1.05	3.37
General economic services	0.26	0.10	0.34	0.25	0.29	0.34

The administrative receipts from social services by way of fines, user charges and othere miscellaneous receipts as percentage of revenue expenditures form only 1 percent and in the case of economic services it is 7.88 percent in 2003-04. Not much of growth in revenue from user charges in various services is seen relative to revenue expenditures in respective sectors. In the case of economic sector, the relative share of non-tax revenue from forestry and plantation is higher due to the sale forest products including timber and income from tea plantations. The non-tax revenue from other economic services in fact has been declining over the years.

3.11.2 Interest Receipts and Dividends

Interest receipts accrue to states against loans and advances given to public sector undertakings, cooperative banks, other enterprises and government servants. The government of Sikkim has received a sum of Rs.2.73 crores as interest receipts in 2003-04. However, 85 per cent of this interest receipts has come from the interest received from investing the cash balance left at the end of year. Removing the interest receipts from investing cash balance, the average rate of return on the outstanding loans during 2000-01 to 2003-04 works out to 5 percent. The interest earning from investing cash balance each year is unpredictable depending upon the fiscal situation and cash management of the government. The interest receipt from other loans and advances is a small amount that will have very little impact on the state revenue.

There have been no dividends earned from most of the PSUs in the state. The average effective return from the government investments during the last four years works out to a mere 0.89 percent. The growth of dividends from the PSUs will significantly depend on the policy of the government in restructuring them either by divestment and restructuring of some of the PSUs. .

3.11.3 Non-tax Revenue: Issues pertaining to Provision of Services and Cost Recovery

While classifying the government expenditure into general services, social services and economic services, there are many services that are in the nature of pure public goods. In general services, expenditure heads like organs of state, fiscal and administrative services are included that are in the nature of pure public goods are provided by the government. Even if there are some services under this category which are excludable and a price can be charged on individuals, it is generally difficult to segregate public and private components and effect cost recovery. Governments also provide a range of non-public goods under social and economic services where the users are identifiable and user charges can be levied. Budgetary subsidies arise when the budgetary cost of providing a good or a service exceeds the recovery made from the users of the good or service. There are many government services which are considered merit goods and subsidization in varying degrees is essential. Services like elementary education, primary health-care, social welfare and nutrition, and environment are desirable from the society's point of view; government subsidy to such services can not be faltered. At the same time services like secondary education, family welfare, urban development, forestry, and agriculture also need some government subsidies[3]. However, subsidy should be targeted and cost recovery to the extent possible is equally important; especially in non-merit services.

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[3] The report on 'Central Government Subsidies in India' prepared by NIPFP suggests a three-tier hierarchy of Government social and economic services.

Merit I – Elementary education, primary health-care, prevention and control of diseases, social welfare and nutrition, soil and water conservation, ecology, and environment.

Merit II – Education (other than elementary), sports and youth services, family welfare, urban development, forestry, agricultural research and education, other agricultural programmes, special programmes for rural development, land reforms, other rural development programmes, special programmes for north-eastern areas, flood control and drainage, non-convention energy, village and small industries, ports and light houses, roads and bridges, inland water transport, atomic energy research, space research, oceanographic research, other scientific research, census surveys and statistics, and meteorology

Non-Merit- All others

3.11.4 Cost Recovery in Social and Economic Services

The subsidies given by the government on various services could be of two types – explicit and implicit. The separate provision in the budgets to subsidise a particular service refers to explicit subsidies and these are shown in the budgets. On the other hand, the short fall of cost recoveries from the cost of providing social and economic services denote implicit subsidies invoved in the provision of these services. In the budgetary classification of states very few explicit subsidies that are in the nature of direct payments to account for difference in prices are shown. On the other hand, most of the social and economic services are charged the average cost of providing them, howsoever much this is unmerited.

The unrecovered costs can be measured as the excess of cost of providing the service over the cost recovered.. The cost of providing public services include three elements: current costs, annualized capital costs (opportunity costs of funds used for capital assets and imputed depreciation), and opportunity cost of funds invested in the form of equity or loan for the service. Current costs are revenue expenditures directly associated with provision of services. The currents costs do not include transfers to funds and transfers to individuals and at the same time transfers from the funds are included in the expenditures. Capital costs are related to the investments by government when services are provided by departments, investments in the form of equity and loans to the public sector undertakings. The annualized capital costs are obtained by applying the interest rate at which the government borrows money and in the case of physical capital, depreciation cost is calculated. So the total cost of provision of public services consists of revenue expenditures net of transfer to funds and individuals, imputed interest and depreciation cost on capital stock, and imputed interest cost on public sector investment and loans. On the other hand the receipts are user charges and fees, interest receipts on loans and dividends obtained from the PSUs. The excess of total cost over the revenue receipts is known as implicit subsidy and the cost recovery can be estimated by taking ratio of receipts to cost under respective budgetary heads.

The cost recovery in social and economic sectors for the year 2003-04 is given in Tables 22 and 23. The cost recovery in social services in 2003-04 is merely 0.79 percent and economic services it is 10.40 percent. Cost recovery in two major expenditure heads – education and health has been 0.57 percent and 1 percent respectively. In the case of water supply and sanitation the cost recovery is equally low at 1.55 and 0.53 percent. The subsidy provided from budget in social services works out to be Rs.306.44 crores that constitutes 23 percent of GSDP in 2003-04.

Table 22 Cost Recovery in Social Services

Rs. Lakh

		Costs	Receipts	Subsidies	Recovery Rate (%)
	Social Services	**30887.06**	**243.34**	**30643.73**	**0.79**
2,202	**General Education**	**14839.33**	**84.23**	**14755.11**	**0.57**
	Elementary Education	7496.34	3.77	7492.57	0.05
	Secondary Education	6397.76	79.66	6318.10	1.25
	University Higher Education	524.30	0.80	523.50	0.15
	Adult Education	1.00	0.00	1.00	0.00
	Language Development	39.08	0.00	39.08	0.00
	General	380.86	0.00	380.86	0.00
2,203	Technical Education	308.63	0.00	308.63	0.00
	Sports & Youth Welfare, Art & Culture	**1049.48**	**3.83**	**1045.65**	**0.37**
2,204	Sports & Youth Welfare	544.88	0.00	544.88	0.00
2,205	Art & Culture	504.60	3.83	500.77	0.76
2,210	**Medical & Public Health**	**4448.12**	**44.31**	**4403.81**	**1.00**
	Urban health Services	2882.55	32.41	2850.13	1.12
	Rural Health Services	1225.29	0.00	1225.29	0.00
	Med. Edu. Trng. And Research	85.99	0.00	85.99	0.00
	Public Health	253.40	11.90	241.50	4.69
2,211	Family Welfare	470.24	0.00	470.24	0.00
2,215	**Water Supply & Sanitation**	**4788.69**	**74.35**	**4714.35**	**1.55**
	Water Supply	4533.98	56.96	4477.01	1.26
	Sewerage & Sanitation	254.72	17.38	237.33	6.82
2,216	**Housing**	**3320.02**	**17.60**	**3302.42**	**0.53**
	Government Residential Buildings	869.61	17.60	852.01	2.02
	Urban Housing for urabn poor	4.08	0.00	4.08	0.00
	Rural Housing	1236.48	0.00	1236.48	0.00
	General	1209.86	0.00	1209.86	0.00
2,217	**Urban Development**	**870.46**	**0.00**	**870.46**	**0.00**
2,220	**Information & Publicity**	**302.03**	**12.93**	**289.10**	**4.28**
2,225	**Welfare of SCs, STs and OBCs**	**159.78**	**0.00**	**159.78**	**0.00**
2,230	**Labour & Employment**	**108.79**	**4.40**	**104.39**	**4.04**
2,235	**Social Security & Welfare**	**28.81**	**0.00**	**28.81**	**0.00**
2,250	**other social services**	**192.68**	**1.69**	**190.98**	**0.88**

Table 23 Cost Recovery in Economic Services

Rs. Lakh

		Costs	Receipts	Subsidies	Recovery Rate (%)
	Economic Services	**43209.51**	**4493.61**	**38715.90**	**10.40**
	Agriculture and Allied Activities	**7564.51**	**791.13**	**6773.37**	**10.46**
2401	Crop Husbandry	1712.51	30.72	1681.79	1.79
2402	Soil and Water Conservation	350.61	0.00	350.61	0.00
2403	Animal Husbandry	977.09	22.63	954.46	2.32
2404	Dairy Development	93.38	0.00	93.38	0.00
2405	Fisheries	200.64	0.64	200.00	0.32
2406	Forestry & Wild Life	1924.34	723.67	1200.66	37.61
	Forestry	1454.70	713.71	740.99	49.06
	Environmental Forestry and Wild Life	397.90	9.96	387.94	2.50
2407	Plantations	227.20	191.76	35.44	84.40
2408	Food Storage & Warehousing	1096.12	13.38	1082.74	1.22
2415	Agr. Research & Education	86.68	0.00	86.68	0.00
2425	Co-operation	546.38	0.08	546.31	0.01
2435	Other Agricultural Programmes	576.74	0.00	576.74	0.00
	Development Programmes	**3172.98**	**51.11**	**3121.87**	**1.61**
2501	Spl. Programmes for Rural Dev.	129.17	0.00	129.17	0.00
2506	Land Reforms	27.58	0.00	27.58	0.00
2515	Other Rural Dev. Programmes	2617.62	51.11	2566.51	1.95
2551	Hill Areas	398.61	0.00	398.61	0.00
	Irrigation and Flood Control	**1529.50**	**6.11**	**1523.39**	**0.40**
2702	Minor Irrigation	630.02	6.11	623.90	0.97
2705	Command Area Development	4.99	0.00	4.99	0.00
2711	Flood Control	894.49	0.00	894.49	0.00
2801	**Power**	**10912.03**	**1366.78**	**9545.24**	**12.53**
	Hydel Generation	4846.33	1366.78	3479.55	28.20
	Diesel/Gas Power Generation	215.86	0.00	215.86	0.00
	Transmission & Distribution	3515.31	0.00	3515.31	0.00
	General Expenditure	2302.54	0.00	2302.54	0.00
2810	Non-conventional Energy Sources	50.00	0.00	50.00	0.00
	Industries	**3203.66**	**138.08**	**3065.58**	**4.31**
2851	Village & Small Scale Industries	2008.63	57.75	1950.87	2.88
2852	Industries	531.77	76.16	455.61	14.32
2853	Non-ferrous Mining and Metall. Ind.	242.87	4.17	238.71	1.72
2875/85	Other Industries	420.39	0.00	420.39	0.00
	Transport and Communication	**10837.48**	**1732.80**	**9104.68**	**15.99**
3053	Civil Aviation	205.16	0.00	205.16	0.00
3054	Roads & Bridges	7911.31	0.00	7911.31	0.00
3055	Road Transport Services	2720.86	1732.80	988.06	63.69
3075	Other Transport Services	0.15	0.00	0.15	0.00
	Other Economic Services	**1269.58**	**82.36**	**1187.22**	**6.49**
3425	Other Scientific Research	74.79	0.00	74.79	0.00
3435	Ecology & Environment	31.55	0.00	31.55	0.00
3452	Tourism	879.28	79.01	800.27	8.99
3454	Census, Surveys & Statistics	141.25	0.00	141.25	0.00
3465	Gen. Fin. & Trading Institutions	43.87	0.00	43.87	0.00
3475	Other Gen. Eco. Services	98.85	3.35	95.50	3.39

The total subsidy in economic services constitutes 26.26 percent of GSDP in 2003-04. The cost recovery in economic services has been influenced by cost recoveries in power, transport services and forestry and plantation where sale of timber and income from tea plantations brings in some revenue. The power sector cost recovery actually is very low at 12.53 percent signifying heavy subsidization of the electricity in the state. The road transport gives a return of 63.69 percent once again a sizable amount of subsidy is involved in providing transport facility in the state. The total subsidy in economic sector in 2003-04 is estimated to be Rs.387.16 crores out of which the power subsidy is Rs.95.45 crores and transport subsidy is Rs.91.04 crores. The subsidy in agricultural and allied activities is Rs.67.73 crores.

Compared to an earlier study on state subsidies for the year 1998-99 (NIPFP, 2003), the recovery rate in provision of government services has improved more in economic services than that of social services. The recovery rate in social services, according to 1998-99 estimation was 0.43 percent and in economic services it was 6.21 percent. The improvement in social services is marginal whereas there has been some improvement in economic services. The improvement in recovery rate in economic services has been mainly due to higher recovery in power and transport services. However, the subsidy amount in nominal terms has increased significantly from Rs.219 crores in 1998-99 to Rs.Rs.306 crores in 2003-04 in social services and from Rs.258 crores to Rs.387 crores in economic services.

The improvement in cost recovery in economic services notwithstanding, the sector specific recovery rates in individual sectors in Sikkim has been very low. Given the importance of public provision of services in a state like Sikkim, the revenue augmentation measures should be strengthened to maintain the existing infrastructure and improve the quality of services. The two main candidates of reforms are power and transport sector (The restructuring of transport sector has been dealt in Chapter). The user fees in social services, especially education and health needs to be revised to garner some revenue to improve the education and health infrastructure. The amenities like water supply and sanitation especially urban sector should also be restructured to recover the cost. Increasing recovery rate in various services not only strengthen the existing infrastructure to serve the citizens better, it will also instill a sense of participation of the people by themselves and increase accountability on the part of the authorities. Almost free social services will be difficult to sustain in the future not only due to financial constraint, but also due to lack of responsibility, accountability and participation of the stakeholders.

4. Debt Restructuring and Contingent Liabilities

4.1 Debt Restructuring

The composition of State government debt as on 31-3-2004 and projected composition as on 31-3-2005 are presented in Table 24. Market loans followed by Central loans and Provident Fund and Deposits are the principal liabilities of the State government. The maturity profile of outstanding State government market loans at the end of March 2004 for the 8 NEC States and all States is presented in Table 25. It is clear that the maturity profile of outstanding loans of Sikkim is qualitatively different from those of the other NEC States and all States. More than 56 per cent of all such outstanding market loans of Sikkim will mature in five years. In the case of all other NEC States and all States, more than 60 per cent of such outstanding loans have a maturity period of more than six years. Early maturity of a higher share of market loans has two implications for Sikkim. First, the debt service liability during the coming five years will be rather heavy. Second, the future liability will be rather light.

As far as the liability of Central loans is concerned, the TfFC has made recommendations on its restructuring and writing off. It may be noted in this context that during the award period of EFC, two schemes administered by the MoF were in operation which had a sobering effect on the debt burden of the States. The first one was an incentive scheme known as Fiscal Reform Facility under which a State which reduced its revenue deficit or increased its revenue surplus by a minimum percentage in a year was entitled to receive a certain predetermined amount of grant from the MoF. Since the amount of incentive was rather meagre and the fiscal stress on the States was severe after the initial year of the EFC award period, majority of the States did not get/take advantage of this scheme. The TfFC has, therefore, recommended that the scheme of Fiscal Reform Facility be replaced by a scheme of Debt Relief over the period 2005-10. Another scheme which was available to the States over the three year period 2002-05 was a Debt Swap Scheme under which State governments were allowed to substitute high cost loan of the Central government by fresh low cost loans from the market as well as the net proceedings from National Small Savings scheme. Over the three year period, the States have been estimated to have replaced about Rs. 100,000 crore of high cost loans of the past which attracted an interest rate of 13 per cent or more by low cost loans which on the average attracted an interest rate of about 9 per cent. As a result, while the amount of indebtedness of the States remained unchanged, the debt servicing burden came down by more than Rs 4000 crore per annum for all States taken together.

The Scheme of Debt Relief recommended by the TfFC envisages the following:

(a) Rescheduling of all Central loans contracted till 31-3-2004 and outstanding as on 31-3-2005 into fresh loans for 20 years carrying 7.5 per cent interest with effect from the year a State enacts the Fiscal Responsibility Legislation. For Sikkim the debt relief awarded by the TfFC through consolidation is a total of Rs. 44.65 crore over the award period of 5 years comprising of relief of Rs. 10.69 crore repayment of the principal and Rs. 33.96 crore of interest liability. The Government has accepted this recommendation subject to the condition laid down by the TfFC. It also expects that the State governments would comply with the obligations regarding fiscal deficit and revenue deficit imposed by the Fiscal Responsibility legislation. The Centre would request the next Finance Commission to make appropriate adjustment in case the State availing of the debt relief is not able to comply with the Fiscal Responsibility Legislation. Debt indicators for Sikkim and other NEC States along with the debt relief awarded by the TfFC through consolidation are given in Table 26.

(b) Debt Write-off: The TfFC has also recommended a debt write-off linked to reduction in revenue deficit by a State. The quantum of write-off of repayment would be linked to the absolute amount by which the revenue deficit is reduced in each successive year during the award period. In accordance with the TfFC recommendations, the benefit of write-off would be available only if the fiscal deficit of the State is contained to the level of 2004-05. If, in any year, the fiscal deficit exceeds this level, the benefit of write-off, even if eligible otherwise, would not be given.

In the case Sikkim along with Arunachal Pradesh, Meghalaya, Nagaland and Tripura, since they are in revenue surplus the calculation of incentive criteria is different from that for other States. These States have to maintain the average revenue surplus of the three-year period 2001-04 in each year of the award period to be eligible for debt write-off. The details are given in Table 27. It is evident that in the case of Sikkim it is a tough job to maintain a revenue surplus of Rs. 168 crore in each year during the period 2005-10. Besides this, the fiscal deficit should not exceed 3.91 (the level achieved in 2004-05) in any year during 2005-10. If these twin conditions are satisfied the total repayment liability of Rs.48.07 crore will be written off.

(c) Central Assistance: The TfFC has recommended that the Centre should release only the grant component of Central assistance for State Plan and leave the States to raise loan portion from other sources. For States unable to raise loans from the market, the Centre may act as a financial intermediary but without any subsidisation of the cost. This approach has been accepted in principle to be implemented in phases, in consultation with the RBI. From 2005-06, the States would be allowed at their discretion, not to draw the loan portion of the Central Assistance.

For Sikkim, the loan portion of the Central assistance as per the approved annual plan for 2005-06 is Rs. 43 crore. The State government has to take a considered view about acceptance/non-acceptance of this loan, especially in view of the stringent requirement regarding the revenue surplus.

(d) External Assistance: The TfFC has recommended that the Centre should pass on external assistance on back-to-back basis to States and manage it through a separate Fund in the Public Account. The Government has accepted this recommendation subject to the condition that the service cost and exchange rate risk would be passed on to the States under this arrangement. Though external assistance had not been an important source of funding for Sikkim in the past, this could form an important source of funding in the future. It is, therefore, important that the State government should endeavour to receive external assistance by way of grants or at least soft loans.

With the acceptance of TfFC recommendation by GOI to do away with the loan component of central assistance to States plan loans from the Centre will become a minor component of the loan portfolio of the States. Indeed, often Centre was being criticised for lending to the States at rates far higher than justified. There is merit in allowing the States to be on their own as far as borrowings are concerned as it will subject them to the discipline of the market. A State whose finances are well managed will be able to borrow from the market on better terms. This will be an added incentive for the State to manage their finances efficiently. Sikkim under the reform scenario will be in a much better position to raise adequate funds in the market at fairly reasonable terms.

As regards the level of borrowings the considerations to be kept in view are the alternatives available for investment in critical sectors like power, road, network, airport etc. The public-private participation in the power sector which the State Govt. has initiated in respect of Teesta stage II and III has the potential for replication in respect of other capital intensive projects like the proposed airport and an alternate highway. The important aspect of the Teesta projects is that the State Govt.'s equity participation is to be financed by the private partner who will be repaid from the revenue stream from the project after its completion. If the State Govt. can attract similar private partnership for major capital intensive projects there is scope for limiting the capital outlay under the plan to less than 10 percent of the GSDP. This will imply that fiscal deficit can be gradually phased out and that the Debt : GSDP ratio will steadily come down to comfortable levels.

4.2 Contingent Liabilities of the State Government:

The State government had a total Rs. 86.10 crore of outstanding Contingent Liabiliities as on 31st March, 2005. These are all in the nature of guaranteed loans to State government enterprises except one which is a guarantee to a joint enterprise. A statement showing maturity profile and rate of interest on guaranteed loans is given below.

Statement Showing Maturity Profile and Rate of Interest on State Government Guarantees *(Rs. Lakh)*				
S.No.	**Name of Enterprise**	**Amount Guaranteed**	**Rate of Interest**	**Remarks**
1.	Sikkim Mining Corporation	7.00	15%	Guarantee to State Bank of Sikkim
2.	Sikkim Vanaspati Ltd.	803.00	Matter subjudice	Guarantee to SBI, IFCI & IDBI.
3.	Sikkim State SC/ST/OBC Development Corporation Ltd.	2500.00	4.5%	National SC/ST/OBC Development Corporations, respectively
4.	Sikkim Power Development Corporation Ltd.	5000.00	12.45%	Bond raised from the market.
5.	Sikkim Time Corporation Ltd.	300.00	13%	Guarantee to Central Bank of India
	Total	**8610.00**		

Sikkim Mining Corporation is being closed. The small amount of guaranteed loan also is being cleared. Sikkim Vanaspati Ltd. Guaranteed loan is a matter of subjudice. However, an out of court settlement is being attempted. The unpaid principal and normal interest plus penal interest add up to a staggering amount of about Rs. 31 crore. The negotiated settlement with SBI, IDBI and IFCI is likely to be about Rs. 15 corre. This amount may have to be paid from the public exchequer. The State SC/ST/OBC Development Corporation loans are being serviced by the respective corporations and they are relatively inexpensive loans from the corresponding Central financial institutions. The largest guarantee liability is in respect of Sikkim Power Development Corporation. This comprises of three bond issues of Rs. 10 crore, Rs. 20 crore and Rs. 20 crore which mature in June 2005, June 2006 and June 2007, respectively. The repayment liabilities are likely to devolve on the State exchequer. Sikkim Time Corporation loan of Rs. 3 crore attracting an interest rate of 13% is a loan in perpetuity. There is logic in renegotiating for a reduced rate of interest failing which it is better to pay up.

The State Government's Guarantee policy is governed by the Sikkim Ceiling on Government Guarantees Act 2000, the details of which are given in Box V. As per this, the outstanding Guarantees at the beginning of the financial year shall not exceed thrice the State's tax revenue receipts of the second preceding year. The present level is within this limit and it is likely to improve somewhat in the coming years if the proposed SPU reforms are carried out.

Box V
Sikkim State Government's Guarantee Policy

The State Government of Sikkim is governed by the Sikkim ceiling on Government Guarantees Act, 2000 passed by the state Legislative Assembly on 13th December, 2000. The operative parts of the Act are as follows:

The total outstanding Government Guarantees as on the first day of April of any year shall not exceed thrice the state's tax revenue receipts of the second preceding year as in the books of the Accountant General of Sikkim.

Notwithstanding any thing contained in any other law no Government guarantee shall be given in respect of a loan of any private individual, institution or company.
The Government shall charge a minimum of one percent as guarantee commission which shall not be waived under any circumstances.

The Government may, by notification in the official Gazette specifies Commission at an enhanced rate depending on the default risk of the project.

Table 24 Composition of State Govt. Debt

(Rs. in crore)

	As on 31/3/04	As on 31/3/05
Central Loans	278.48	276.18
National Small Savings Fund Loans	-	-
Market Loans	295.76	350.71
Loans from Banks etc.	106.37	111.22
W&M Advance from RBI	-	-
Provident Funds & Deposits	256.92	268.28
Reserve Funds & Deposits	38.90	38.20
Total Debt	976.43*	1044.59

Source: Report of the Twelfth Finance Commission, Govt. of India, February, 2005.

- This differs from the State Government debt as reported in the Inception Report at Rs,724 crores as on 31/3/04 on account of two factors. The letter does not include Provident Deposit Funds of Rs. 256.92 crores but includes public deposits of Rs. 4.49 crores. Both these figures exclude short term debt.

Table 25 Maturity Profile of Outstanding State Govt. Market Loans at End March 2004

(Rs. in crore)

State	Percentage to total outstanding			
	0-5 Years	6-10 Years	Above 10 years	Total amount outstanding
Arunachal Pradesh	16.0	44.7	39.3	262
Assam	35.0	54.1	11.0	4496
Manipur	31.4	41.0	27.6	529
Megyalaya	39.3	44.6	16.1	700
Mizoram	29.6	53.8	16.6	422
Nagaland	36.6	49.4	14.0	1098
Sikkim	56.1	28.7	15.2	296
Tripura	34.8	46.1	19.2	792
All States	**32.1**	**53.9**	**14.0**	**179465**

Source: Report of the Twelfth Finance Commission, Govt. of India, February, 2005.

Table 26 Debt Indicators for Sikkim and other North East States

Rs. Crore

.S tate	Debt Ratio	GSDP	Interest payment as % of total revenue receipts Average for 2001-05	Total repayment due during 2005-10 to the Centre (Rs. crore)	Debt relief awarded by TfFC through consolidation.		
					Repayment	Interest	Total
1	2	3	4	5	6	7	8
Arunachal Pradesh	31.80	55.45	11.30	117.37	19.98	71.73	91.71
Assam	27.26	33.91	16.88	1032.57	507.62	153.87	661.49
Manipur	34.03	43.08	18.43	480.68	292.14	27.26	319.40
Meghalaya	19.34	32.17	11.10	95.08	14.82	56.49	71.30
Mizoram	45.47	81.56	14.58	75.16	7.31	50.54	57.85
Nagaland	39.21	52.10	14.58	101.50	21.35	56.06	77.41
Sikkim	52.04	60.27	10.45	58.76	10.69	33.96	44.65
Tripura	36.94	37.78	14.06	142.29	24.77	123.97	148.73

Source: Report of the Twelfth Finance Commission, Govt. of India, February, 2005

Table 27 Calculation of Incentive for Debt Relief Based on Fiscal Performance in NEC States

(Rs. Crore)

	State	Revenue Deficit(-)/Surplus (+)			Average revenue Deficit/ Surplus 2001-04	Repayment due in 2005-10 after consolidation and rescheduling
		20001-02 Actual	**2002-03 Actual**	**2003-04 RE**		
	1	2	3	4	5	6
1	Arunachal Pradesh	56	77	-39	31	97.39
2	Assam	-881	-319	-1634	-945	524.95
3	Manipur	-161	-87	-280	-176	188.54
4	Meghalaya	-34	84	110	54	80.27
5	Mizoram	-260	-109	-32	-134	67.85
6	Nagaland	-103	-159	99	-54	80.15
7	Sikkim	143	198	163	168	48.07
8	Tripura	54	-81	93	22	117.53

Source: Report of the Twelfth Finance Commission, GoI, February 2005.

5. Expenditure Management and Budget Making

5.1 Current Practice of Expenditure Management and Budget Making

Expenditure management in governments has broadly the following objectives – (i) achievement of macroeconomic stability. Although this objective has greater applicability to Central governments, subnational governments have also a substantial role in that persistent deficits at lower levels of government could contribute to several adverse pressures on the economy. Consequently, this objective lays emphasis on the role of expenditure management in the determination of aggregate expenditures and their distribution among various functions. In addition this objective aims at achieving a greater congruence between intent and outcome or estimates and the actual outturn at the end of the fiscal year. (ii) The second objective is to secure economies of scale in expenditure both in planning and implementation stages. If the previous objective reflects the major economic dimension of expenditure management, the second dimension reflects the imperative need for prudence and rectitude in incurring expenditures. (iii) The third objective is to ensure an improved delivery of services. As an integral part of this effort, alternative ways of delivering services may also be explored. This objective reflects the performance dimension of expenditure management, and (iv) the system also aims at ensuring a full utilization of benefits conferred by government outlays. In a way, this is a logical extension of the preceding objective. These objectives have to be concurrently achieved by the system.

Judged by the above criteria, the system of expenditure management in Sikkim has several problem areas. In general, it is more concerned with the application of financial and legal controls in the collection and disbursement of monies. The other areas receive scant or no attention at all. To some extent this imbalanced approach may have its origins in the administrative process now in place. Accordingly, the process aspects are considered here first, followed by a review of the adequacy of expenditure management in selected areas, viz., policy controls, control of personnel, control of public works, and control of poverty alleviation programs. Enhancing fiscal capacity in Sikkim requires sustained, assiduous efforts in both these areas.

Diverse approaches are followed for plan and non-plan expenditures. In either case, the basis of allocation is largely on the items of expenditures than on programs, or their benefits or the nexus between the resources proposed to be allocated and the services to be delivered. As a result, the budget has become a weak link in policy planning and in the overall management of the economy. These issues need to be frontally addressed through an organized focus on programs, and the delivery of services.

5.2 Budgetary Process and Policy Planning: An Evaluation

The existing budgetary process in Sikkim is illustrated in Figure 12. It shows that two different approaches are followed for Plan and non-Plan outlays. In regard to the former, sectoral expenditures are largely determined through the medium term and annual plans. As noted earlier, a major part of the Plan outlay is funded through central assistance. In view of the origins of funding, the local proposals also follows the Centre's guidelines. Indeed, it can be said that to a very substantial extent, policy formulation in this regard takes place at the Centre. The local contribution is, at best, marginal. The non-Plan exercises are undertaken separately and there is, as yet, no planning for the future years. Even for the next year, the orientation is to restrict the growth of these outlays through an embargo on the creation of posts and other approaches. The focus of review and allocations is the object basis in isolation of the larger implications for the programs as a whole. Often, in the process, the distinctive features and consequently requirements may not be given the attention due. Expenditures, which by definition and in terms of their implications for the society, have to be unequal, tend to be treated as equal. Moreover, efforts need to be made to link the proposed outlays with the delivery of services. To some extent, the absence of this focus may have its origins in the system of budget classification which is mostly oriented to objects of expenditure.

Figure 12 shows the various steps involved in the preparation of the annual budget. The process is too traditional, inadequate for the purposes to be served, and is in desperate need of improvement. Steps proposed for improvement should, in the first instance, recognize the problems that are experienced now. The problems are several but may be briefly stated as follows: (i) The schism between Plan and non-Plan approaches is so deep rooted that for all intents and purposes, there is a dividing wall between the two in all stages of budget preparation: Two separate budget circulars are issued covering the respective areas. (ii) The circulars are routine in nature and do not illumine the economic conditions forming the backdrop for the annual budget, nor does it identify the areas where economies are to be procured or the steps being taken or proposed to be taken leading to an improvement in the delivery of services. It is, as if, there is no specific agenda to be pursued. (iii) The budget review is based on an analysis of running outlays in terms of norms, and usually adjustments are made at the margins which anyway tend to be restored during the course of the fiscal year through additional allocations. The final budget estimates therefore tend to be putative and the end-of-the-year budgetary outcome may be very different. Revenue estimates are either overestimated (e.g., transfers from the Centre) or underestimated (e.g. own resources).

Figure 12 Sikkim: Budget Cycle

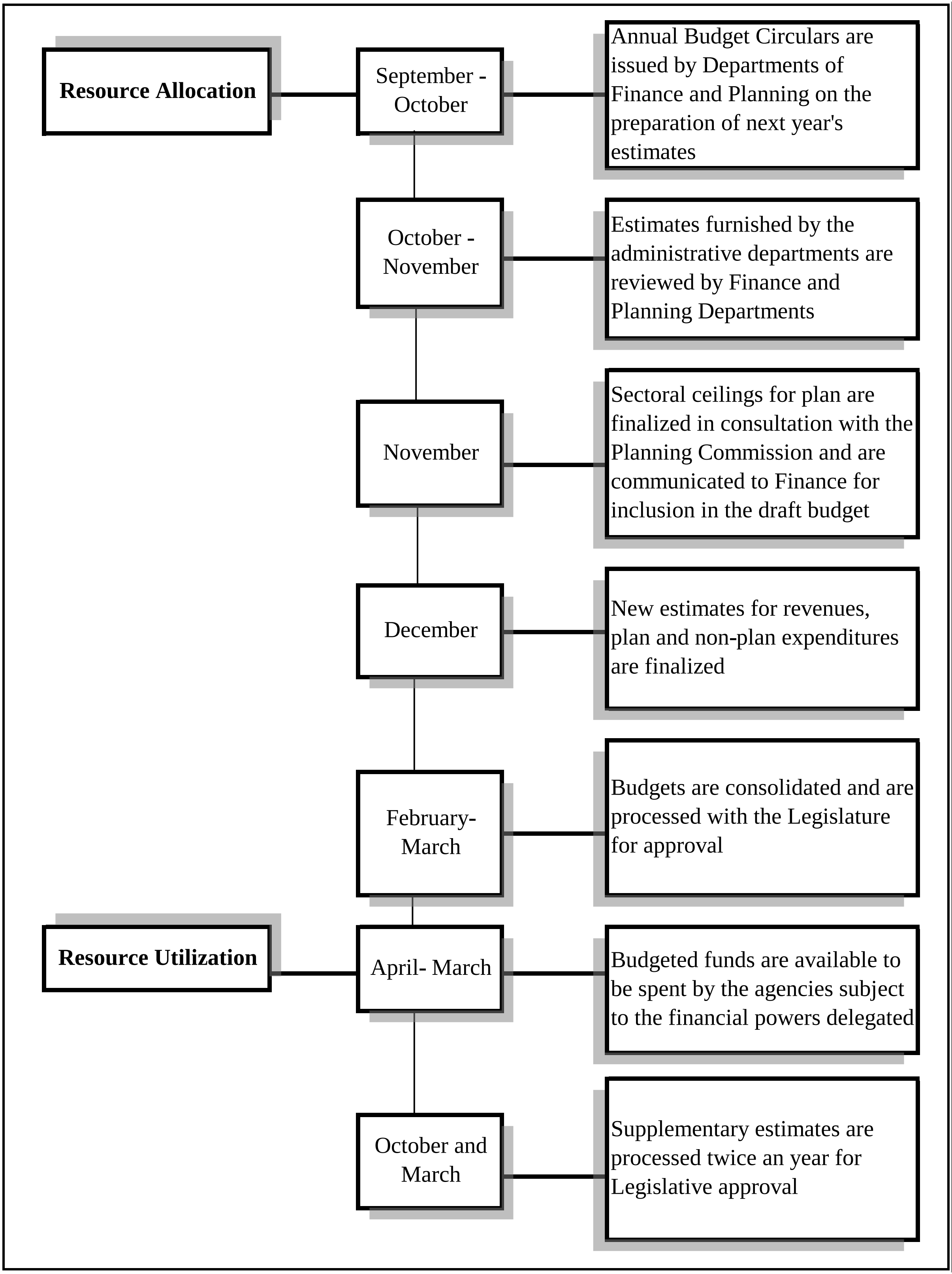
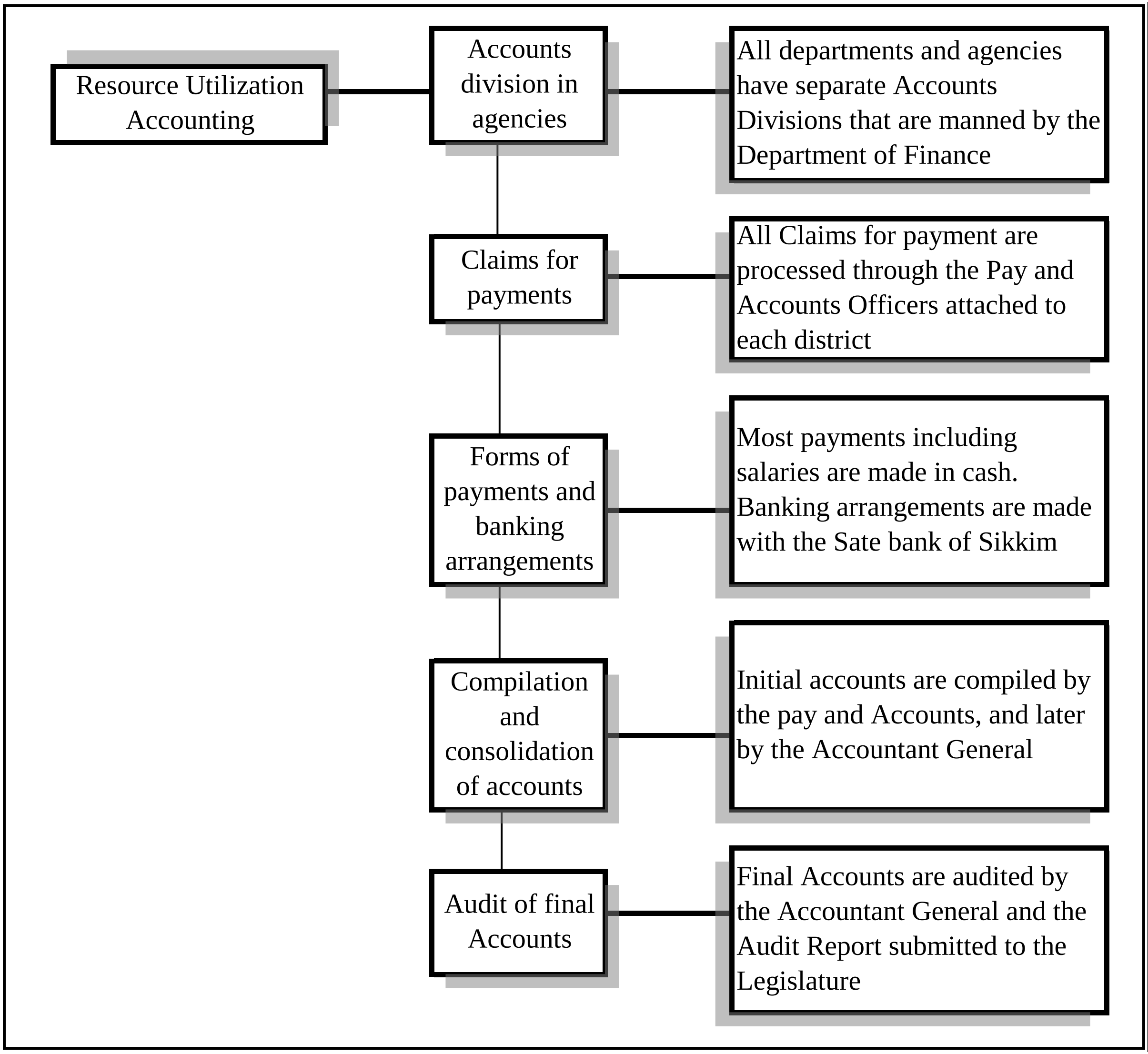


Figure 12 SIKKIM: Budget Cycle (Contd.)



During the year, capital outlays are usually restrained in order to be within the stipulated fiscal deficit levels. (iv) Although guidelines exist for the formulation of project estimates, they are either circumvented or are not adhered to. Contracted prices tend to be different from the estimates made in-house. (v) Control of staff is partly centralized and partly decentralized. The Department of Personnel is responsible for the determination of posts in categories A and B, while for others, the Heads of Departments are empowered to create posts within the budgetary allocations.

Improvements in this area require changes in the systems as well as in operational techniques. There is an obvious mismatch between the objectives of fiscal policy and the instruments of expenditure management. Implementation of fiscal policies requires more than a year. It is therefore appropriate that a medium term expenditure planning is undertaken. Furthermore, while the distribution of plan and non-plan may be continued (to distinguish the sources of financing), the basis of annual review and thus policy making, the budget review should be in terms of programmes and their intended achievements, as well as, in some cases, outcomes. As an extension, a performance oriented budget may be prepared. Box -VI illustrates how a performance based budget may be prepared. As an integral part of this the budget classification may also be changed to programmes while being within the overall guidelines issued by the Comptroller and Auditor General. This will ensure the restoration of the much needed balance in review. Moreover, as an extension of this approach, and following the new tradition of the Government of India, efforts may also be made to prepare Gender based budgets.

These approaches need to be supplemented by organizational measures. It is suggested, in a following section, that the two departments – Finance and Planning should be integrated. This integration would facilitate the formulation and implementation of a more coherent approach to budgetary planning. It should be explicitly noted that the economic context within which expenditure management was working has changed. It should now be geared to reducing the rate of growth of expenditure as well shifting outlays to more productive sectors.

5.3 Budget and Fiscal Policy Making: Emerging Issues

Although fiscal policy is formulated within the parameters of the economy, it also has the purpose of influencing the direction of the economy either through direct participation or through direction or through provision of inducements. In turn, the policy may be forward looking in that future developments are anticipated and appropriate policies together with risk cushions are formulated and are in place to meet contingencies. Alternatively, the policy, instead of being proactive, may be reactive and governments may engage in a kind of fire brigade operations. In general, however, the former approach is followed: accordingly, the annual budget is prepared reflecting the current and future policies. The forecast of the budget may not always materialize in the anticipated manner and frequent changes may be needed as the fiscal year progress. In this area, the annual budget making process reveals several problem areas. These are indicated below.

- **Short-term orientation:** The fiscal policy as announced in the budget is limited to one fiscal year. Public investments may be spread over a number of years and related policies may be indicated in the Five-year or Annual Plan documents. In reality, however, most policies require more than an year to get completed and intended objectives achieved. There is, therefore, a mismatch between the time taken to implement policies and the period covered by the annual budget. Given that the constitutional compulsions have to be faithfully observed, it is clear that other arrangements have to be made supplementing the annual budget. Indeed, a medium term fiscal outlook would minimize uncertainty and enable various economic agents to plan their own activities for the medium period.

- **Economic outlook:** Fiscal policies have to anticipate the events and trends of the future. While there is always an implicit scenario in the minds of the Finance officials, greater reliance is placed on projecting the previous trends, and norms contributing to expenditure determination. There are many activities, however, that are dependent on the economic climate and it is essential that there are explicitly recognized and indicated to all participants in the budgetary process including the public.
- **Preparation of annual estimates:** The empirical basis of the revenue and expenditure estimates leaves a good deal of desired. Even though the economy is estimated to grow during the next year, some of the revenue estimates for the next year are pitched at a level lower than the actual collections during the preceding years. As a result, the budget outcome at the end of the year may be different from the estimates. Granted that the estimates tend to be putative, they also form the basis for the fiscal policy to be pursued and it is of utmost importance that the empirical underpinning of the estimates is enhanced.

Box VI
Performance Oriented Budget: An Illustration

Case of Department of Healthcare, Human Services and Family Welfare

Step 1:	It is important the objectives sought to be achieved through the proposed budget are stated with utmost specificity so that the year end performance could be evaluated.
Step 2:	This step comprises the preparation of a Financial Requirement Table. This Table is at the heart of performance oriented budget as it links the outlays with the proposed objectives. The Table seeks to present the programmes and activities of the department as well as the objects on which it is spent. The existing minor and subheads, as well as the object Heads of Accounts are shown below.

Minor Heads	**Object Heads**
Maintenance and Repairs	Salaries
Hospitals and Dispensaries	Wages
Health sub-centres	Travel Expenses
Primary Health Centre	Office Expenses
Assistance to Panchayat Raj Institutions	Supplies and Materials
Allopathy	Other Charges
Prevention and Control of Diseases	Motor Vehicles
Drug Control	Repair and Maintenance
Public Health Education	Purchase of Drugs
Training	Publication
Rural Family Welfare Services	Minor Works
Urban Family Welfare Services	Purchase of Medical Equipment
Transport	Grants-in-Aid
Compensation	Scholarship and Stipend
General Pool Accommodation	Advertising and Publicity

Box VI Performance Oriented Budget: An Illustration				
	Vital Statistics	Information, Education and Communication Furnishing and Renovation Palliative Treatment		
	The minor Heads shown above are an amalgam of organizational and program aspects. Revised some years ago to reflect the program concerns, it is still dominated by organizational approach. In a performance based budget, the Financial Requirements Table will illustrate both the Programmes (which reflect the objectives specified for the next year) and objectwise Heads.			
Financial Requirements Table				
Department of Healthcare, Human Services and Family Welfare				
I.	Programmes and Activities	Actuals	R.E.	B.E.
	Preventive Care			
	Curative Care			
	Drug Control			
	Family Welfare Services			
	Public Health Education			
	Vital Statistics			
	Compensation (Incentives)			
	Policy Formulation			
	General Administrative Support			
	Total			
II.	Objectwise Expenditure			
	Salaries and Wages			
	Other Running Costs			
	Transport			
	Purchase of Materials & Equipment			
	Purchase of Drugs			
	Major and Minor Works			
	Grants-ion-Aid			
	Other Expenditure			
	Total			
	(Totals of I and II are the same)			
Each progamme can be subdivided into several activities depending on the range covered. Essentially, the Programme classification seeks to speak the language of a Manager in that it links the programmes to the objectives, while also serving as a basis for allocation. It also permits an analysis of the programme as a whole, rather than being viewed in a segmented way.				
Step 3	**Performance Goals and Indicators**			
	Each of the above programmes are discussed in detail and the goals to be achieved as well as the accomplishments are indicated. To permit an objective assessment, relevant objective indicators are also formulated. The above presentation shifts emphasis from the objects on which monies are spent to the goals to be achieved. It seeks to make organizational responsibilities more coherent and transparent. It also makes the organization responsible not merely for moneys spent but also the work performed. This type of budget can be appended to start with to the Departmental budgets.			

5.4 Expenditure Management and Budget Making Process: Proposed Reforms

The above and related issues can be addressed through the adoption of a fivefold approach – (a) enactment of fiscal responsibility legislation, (b) preparation of an economic outlook; (c) emphasis on the formulation and application of policy indicators or anchors, (d) strengthening the annual budget process and (e) management of Central transfers. These are discussed below:

5.4.1 Fiscal Responsibility Legislation

An important issue pertaining to improving capacity to design and implement fiscal policy relates to the legal and administrative peocess. Sometimes, these two are posed as alternatives. It is often argued that the strengthening administrative system is an internal process to the government and the public may have very little opportunity to recognize the importance much less be aware of the need for improving it. On the other hand, enacting appropriate legislations is a visible process that involves deliberations by the representatives of the people and to that extent, there is an explicit opportunity for the public to become aware of it. It is also suggested that a law has a powerful restraint about it in that it specifies the limits and the outlying contours of policy. In reality, however, these are complementary. The law, by itself may not be adequate and can not replace a strong administrative process. The process too may stand to gain when it is reinforced by the provisions of law. These aspects have, however, become academic in the light of the Tf.F.C. recommendations. The Commission recommended that all States, regardless whether they have a revenue surplus or deficit, but keen to have its outstanding debt to the Centre consolidated and restructured, and obtain relief, should enact Fiscal Responsibility legislation. During a number of States have passed legislation in this regard, and others are engaged in preparing and passing the bill in their respective legislatures.

The main advantages of Fiscal Responsibility legislation is, apart from the debt relief provided by the Centre – a major consideration in itself – that it not only spreads the general awareness of the fiscal problems facing a state government and the need to imbibe fiscal discipline but also provides a window of opportunity to provide a roadmap about the fiscal policy proposed to be followed by the Government. The legislation also provides a stimulus to the policy makers to ensure that the policies are in conformity with the spirit and word of the legislation. It also makes the policy maker to look beyond the confines of the annuality of the budget to the medium term and to the fulfillment of budgetary objectives over that period. Implicitly, it requires that fiscal policy planning be organized on a medium term basis. In the light of the enunciation of these advantages, it is appropriate that Government of Sikkim also takes steps to prepare and enact Fiscal Responsibility legislation.

The content of the proposed legislation requires careful consideration. Since Sikkim is a State which had a current account surplus during the period 1996-97 to 2005-06 (Budget Estimates). (Parenthetically, it should be noted that the surplus during 1999-00 was negligible and was much lower than the previous years or since that year) it is appropriate that one of the objectives of the fiscal policy and therefore a monitorable goal, be the maintenance of the current account surplus over the medium term, i.e. 2005-06 to 2007-08. Similarly, a gradual reduction in the fiscal deficit (which was achieved during the period 1996-97 to 2003-04) may also be included as one of the goals of legislation; other goals may deal with the efforts to be made to improve the resource utilization patterns (e.g., reorganization of government departments; reduction of government manpower), and the specification of monitorable performance indicators in the areas of education and public health. In sum, the legislation should demonstrate the desire to maintain prudent public finances while enhancing transparency and accountability.

Under this approach a medium term fiscal reform policy will be worked out for Sikkim that provides a projected fiscal framework after taking into account the broad reform measures suggested both on revenue and expenditure sides.

5.4.2 Preparation of Economic Outlook

It is necessary that supplementing the Fiscal Responsibility legislation, an annual forecast is made of the likely trends in the economy during the next year, as well as for two years beyond (a total of three years – or the duration of the medium term). Such a forecast should be made each year, so that on a rolling basis, a continuing scenario is available. Such forecasts influence the shape and content of the proposed budget. In some situations, they may indicate the need to augment outlays to counteract recessionary tendencies or the need to provide greater support to some sections of the community that are financially challenged. More important, it facilitates the identification and measurement of the changes in revenue resources and in outlays. The economic outlook will also be helpful in determining the ceilings on expenditures proposed to be allocated to departments and agencies.

5.4.3 Policy Indicators

The enactment of Fiscal Responsibility legislation in turn requires the development and application of indicators which are in conformity with the framework of objectives. Accordingly, it appears prudent to apply the following indicators at every step of the annual budgetary process. These may include the current account surplus, the overall fiscal deficit, and performance indicators or targets that are sought to be achieved. The application of the current account surplus requires the specification of the magnitude and the means proposed to be applied for achieving that goal. If this involves mobilization of additional revenues, the measures to achieve that goal need to be formulated. Each indicator is expected to serve as an anchor to achieve a specified goal. As for performance, it is appropriate that suitable measures which also lend themselves to easy measurement are evolved, more so in social areas those are deemed to be vital for the development of the community.

5.4.4 Strengthening Annual Budget Making

Improving the budgetary process is envisaged in terms of three stages– medium term budgeting; formulation of estimates (revenue and expenditure), and the budgetary process itself. As noted earlier, the enactment of Fiscal Responsibility legislation could lead to a medium term budgetary or fiscal planning. Medium term involves the preparation of revenue and expenditure estimates for the next three years on a rolling basis, and on the assumption that existing policies continue over the period without any major change. The forecast would keep in view any changes emanating from the developments in the economy. Medium term forecasts, when prepared, would provide the essential backdrop for the preparation of the annual budget. Essentially, the annual budget will be a slice of the medium term plan except that it includes the changes needed reflecting the developments in the economy, since the preparation of the forecast. Needless to add, the annual budget is the only legal instrument; the medium term forecast is just what it claims to be – a forecast. Although the budget is also a forecast, it is the basis for the grant of legislative approval.

The second step relates to the improvement of budget estimates for revenues and expenditures. In both these cases, it is important to aim at the achievement of congruence between intent and outcome of estimates and actuals. Such congruence requires that the estimates be formulated with reference to empirical factors illustrated in Tables 28 and 29. They illustrate the underlying factors as well as the relative ease with which the estimates can be formulated. Given that the bulk of some types of revenue are collected from three industries and from governmental transactions, and that more than half of expenditures is spent on wages and salaries, the maintenance of data, as well as the formulation of estimates is rendered considerably easier. These data can be stored in a computer and the expenditure profile of each agency and the revenue profile of each type of tax can be compiled and utilized for purposes of estimates.

It should be noted, however, that when initial estimates are furnished, the revenue agencies tend to underestimate revenue collections, while the spending departments tend to overstate their current and capital requirements. These tendencies need to be verified with reference to the empirical data indicated in the tables. Preparation of expenditure profiles assists in a better understanding of the distinctive requirements of each agency and to that extent norms have to be varied. These aspects have to be taken account by the Finance Department and the initial estimates submitted by the agencies should be reviewed in detail.

The budget is now compiled largely through an aggregation process in that the draft estimates submitted by the agencies are reviewed in the Finance and Planning Departments, reflecting the respective spheres of responsibility, and are then consolidated. Once the medium term rolling budgeting is introduced, however, the likely requirements of the agencies would be available centrally with the Department of Finance and on that basis ceilings for non-plan and plan expenditures may be formulated. These ceilings may be subjected to a sensitivity analysis against the economic outlook and the ceilings firmed up. They may then be submitted to the cabinet and its approval obtained. The ceilings so approved should be provided to the agencies and they be instructed to formulate the detailed estimates within those ceilings, while also providing information on expected performance. The allocations would be need and performance based. The opportunity of the issue of the budget circular should be taken to identify the areas where economies are to be procured, or where improved delivery of services is to be ensured. This revised procedure will facilitate the achievement of greater congruence between intent and outcome. An issue may be raised in this context whether the revised procedure would be within the administrative reach of the Sikkimese authorities. Indeed, on that count, there may be a plea for additional allocation of resources, equipment, etc. In the assessment of the team, no such additional resources are necessary except in the form of a personal computer. Indeed, when the budget process is computerised implying an electronic submission of estimates and their revenue, there may be staff savings.

Some of these problems can be avoided by implementing the suggestions made earlier. In addition, the following measures would be appropriate. (i) The annual budget circular should be integrated into one and expenditure ceilings should be conveyed to the departments. The circular should also indicate manpower ceilings for them. (ii) Budget Estimates should be formulated with reference to the empirical factors illustrated in Part I. (iii) Guidelines on project formulation should be adhered to. In addition, data should be maintained with reference to contract cost and estimated completion cost; and (iv) the whole budgetary process should be computerised. The submission of estimates by agencies, their review and consolidation can all be undertaken through the computerised systems.

Table 28 Formulation of Revenue Estimates

Sl. No.	Type of Revenue Receipt	Economic Factors	Technical Factors	Others
A. Tax Revenues				
1.	State Income Tax	Real growth of the Economy; inflation rate	Rates of tax; number of assesses; coverage quality of tax administration	Cost of non-compliance
2.	Land Revenue	--	Land revenue rate; exemptions, if any; quality of tax	Cost of non-compliance

Sl. No.	Type of Revenue Receipt	Economic Factors	Technical Factors	Others
			administration	
3.	Stamp and Registration	Real growth of the State economy; inflation rate; level of economic activity	Rates of stamp and registration duties; number of transactions	Cost of non-compliance
4.	State Excise	Real growth of the State economy; inflation rate; quantum of remittances	Rate of excise on different kinds of liquors, number of outlets	Social factors, attitude towards drinking
5.	Taxes on sales, trade, etc.	Real growth of the State economy, inflation rate, remittances, propensity to spend	Sales tax rates, quality of tax administration	Cost of non-compliance
6.	Taxes on vehicles	Real growth of the State economy, inflation rate, remittances, prices of vehicles	Tax rate on vehicles, number of vehicles	--
7.	Other taxes on commodities and services	General level of economic activity	Rates of tax on entertainment, rate of trade license fee, rate of bazar contract fee, etc.	--
B. Non-tax Revenues				
1.	Interest receipts	Outstanding loans, level of non-performing assets	Rates of interest, book adjustments of subsidies to State PSUs	--
2.	Dividends and profits	Real growth, inflation and level of economic activity	Profitability of State investments, rates of profits, book adjustments with State PSUs	--
3.	User charge for general services	--	Rates of fee, charges, fines, etc. charged for various organs of the State and the general administration relating to various services provided.	--
4.	User charges for social services	--	Rates of user charges for services including education, health, medical, water supply and sanitation, etc. and the efficiency of administration to realise these user charges	
5.	User charges for economic services	---	Rates of user charges, economic services such as agriculture, animal husbandry, fisheries, forestry, irrigation, power industries, transport etc. and the efficiency of recovery.	

Table 29 Formulation of Expenditure Estimates

Category	Economic Factors	Technical Factors	Remarks
I Continuing Outlays			
• Wages, salaries and pensions	• Inflation adjustments	• Number of posts to be reduced as a part of government rationalization plans	• In regard to teachers, maternity leave and consequent appointment of substitute teachers needs to be taken into account
• Purchase of goods and services	• Inflation adjustments • Specific requirements of those agencies that have procurement of bulk supplies (e.g., education and health) to be taken into account		
• Interest		• Impact of debt relief to be considered	
• Transfers to Public Sector Undertakings	• Change in the financial status of the Undertakings • Change in subsidy regime		
• Transfers to Local Governments		• Changes in law	
• Poverty alleviation programmes	• Inflation adjustments • Review of eligibility implications		
• Public works and other construction programmes	• Carry over at the end of each year • Inflation adjustments		
II New Outlays			
• Wages and salaries	• Creation of posts offset by reduction • Inflation adjustments		
• Purchase of goods and services	• Assessment of the requirements of new approved programmes	• Economics of scale and bulk procurement to be considered	
• Interest	• Interest on new loans	• Inventory of existing and proposed loans is	

Category	Economic Factors	Technical Factors	Remarks
		essential	
• Transfers to Public Sector Undertakings	• Assessment of policy changes	• Assessment of internal resources may be needed	
• Transfers to Local Governments	• Implications of new programmes to assessed		
• Poverty alleviation programmes	• Review of eligibility implications		
• Public works and construction programmes	• Estimation after contracts are awarded • Range of cost escalation	• Assessment of technical capacity to implement is needed	• This is an area where slippages tend to be high.
III Unallocated Reserves			
Unallocated reserve	• It is important to have a notional reserve to meet contingencies		
IV Total expenditure			

5.4.5 Management of Central Transfers

Fiscal management tends to acquire a different objective where the State is at the receiving end for a bulk of the resources needed for the financing the annual budget. Sikkim is one of those States that are heavily reliant on Central transfers including devolution of taxes and grants-in-aid. The mechanisms of transfers together with amounts are shown in Figures 13 and 14.

This shows that the transfers received by the Government of Sikkim amount to nearly 80 per cent of the net revenue of the State (i.e., after netting the transactions of Lottery, Power and Transport Departments). The implications of this magnitude for the formulation of the annual budget are several.

In terms of budget formulation, the receiving end needs to be assured on a firm basis of the amounts that would become available to the State. The amount of grants-in-aid (Article 275) is known in advance to Sikkimese authorities. There is, however, a change in the devolution of resources as recommended by the Eleventh and Twelfth Finance Commission. Under the former, the regime that was in force for the past years, grants-in-aid constituted the major part of the received resources. Hereafter, however, the share of grants would be less during the next five year period. Tax proceeds, unlike the grants, being based on percentages tend to vary with the actual collection. In either event, however, the amounts likely to be available to Sikkim are converged, barring some exceptional areas, by December of every year, so much so, that there is ample time for the Government of Sikkim to internalize that resource level for determining their own allocations. Resources that would become available as a part of the Plan are determined as a part of the annual Plan discussion. In general, however, the States are assured that the amount of assistance would not be less than the level of resources transferred during the preceding year. To that extent, the level of resources transferred in the preceding year may be taken as a benchmark or a threshold level and budgetary planning may be undertaken accordingly. It is appropriate for the Government of Sikkim to plan expenditures in terms of the categories – (a) those that would be covered under the threshold level; and (b) those that can be undertaken when more resources become available. This would avoid the overestimation of the assistance in budget estimates. As an extension, this would also reduce the gap between estimates and actuals.

During budget implementation stage, two issues are experienced by the State governments, particularly in Sikkim. The submission of completion certificates that enable the State Government to receive the assistance from the Centre may take some time, and in the meantime, there may be additional strains on the cash resources of the Centre. Another issue relates to the outlays on roads and bridges. The budget estimates are based on the technical and cost calculations in house, while actual outlays are determined by the contract awarded. As a matter of fact, the latter tends to be invariably higher than the former with the consequence that the completed cost is vastly different from the original estimate. The gap is widened when the implementation of the project is longer than initially estimated. A minor variation in the cost, usually up to ten per cent, is accommodated by the Central Government but major variations have to be borne by the State Government. Both these aspects need to be addressed. It is important that a regular inventory of the receivables (there are off-the-shelf software available for the purpose) is maintained in a personal computer and the process monitored regularly. As for the second, an unallocated reserve should be maintained from which the excesses in public works over the estimates could be met. The Reserve Fund should be considered a part of the overall budget, and should be taken into account in the determination of the total expenditures.

It is clear from the preceding discussion that there are several areas that need to be strengthened and when the steps are taken as proposed, then policy making would benefit substantially.

Figure 13 Central Transfers to States – Cycle of Operations

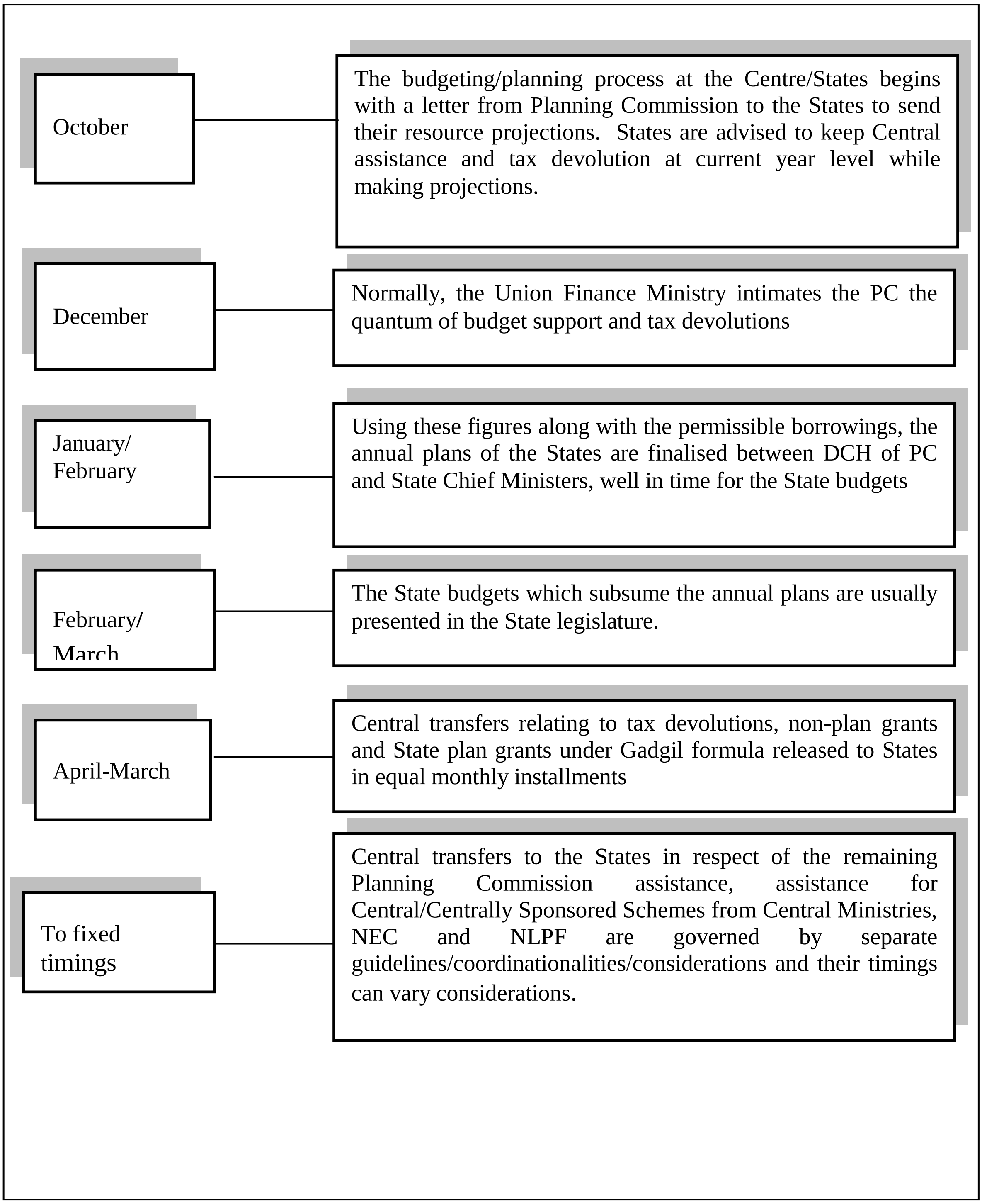
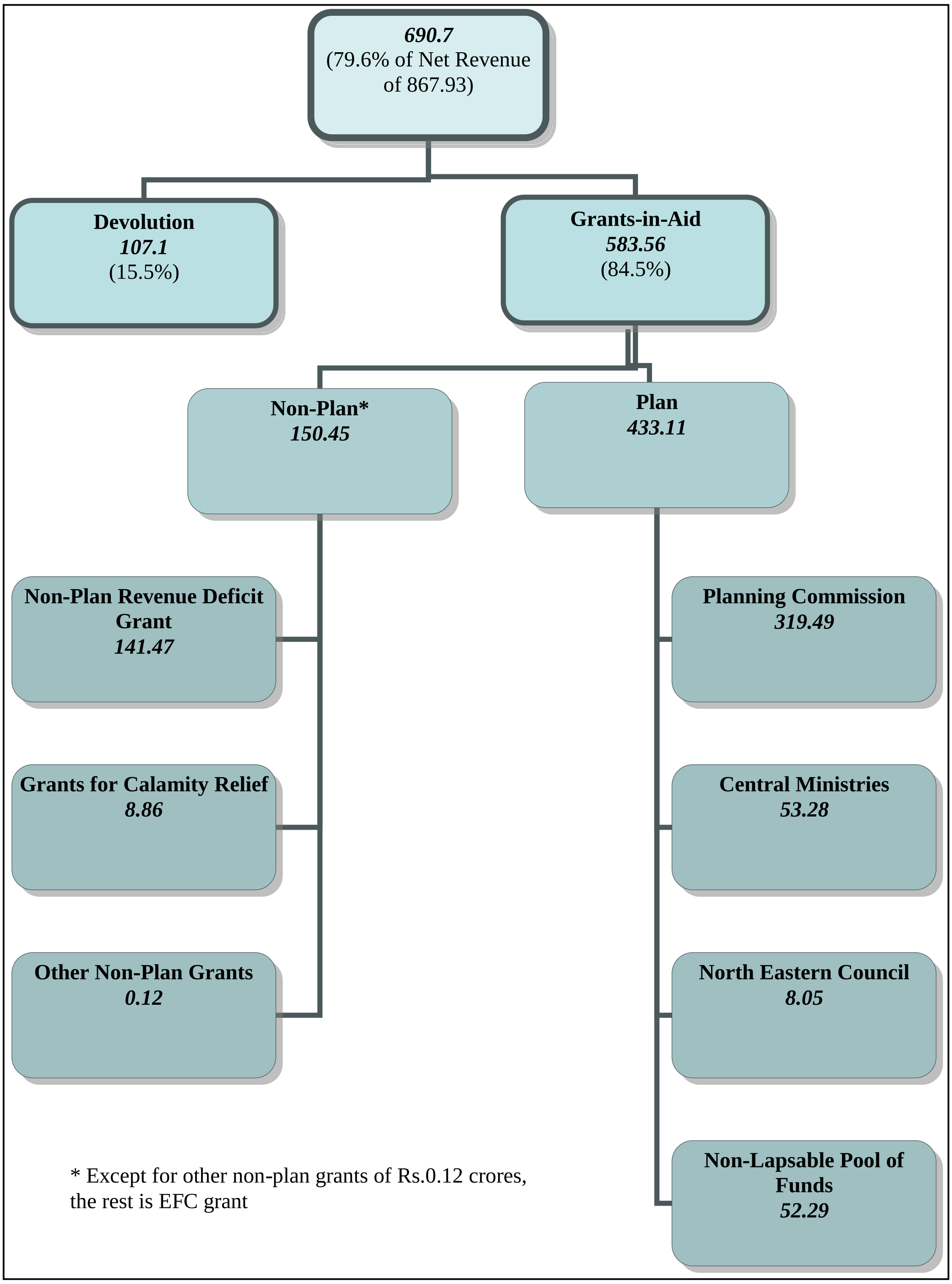


Figure 14 Central Transfers to Sikkim: Actual for 2003-04 (in Rs. Crore)



5.5 Budget Implementation

Three problems are experienced during this stage. First, since the original allocations in the annual budget are not adequate, frequent resort is made to supplementary estimates during the year. Second, there is no organized system of cash management. Third, as a result of the former, expenditures during the last month of the fiscal year tend to be high.

It has been suggested earlier, that supplementary estimates may be processed only when resources, either in the form of Central transfers or other resources, are assured. Similarly, it is important that a system of cash management is installed. This approach while seeking to regulate the flows (Table 30 shows the position of monthly receipts and expenditure for the past three years.) throughout the fiscal year, also facilitates the issue and management of debt. The future passage of the Fiscal Responsibility legislation would require a constant attention to the flows so that the deficit could be contained within stipulated levels. Cash management implies that forecasts are made (with each department submitting its plans to the Department of Finance) soon after the start of the fiscal year after taking into account the seasonal factors affecting both receipts and expenditures. This task will be considerably facilitated with the computerisation of the budgetary process.

5.6 Practice of Expenditure Management: Four Areas

The system of expenditure management may appear, on surface that it is a mechanical and uniform system. The application of the techniques of expenditure control may be different, *al beit*, in degree, from one area to another. To identify these ramifications, a study has been made of four areas, viz., policy, personnel, poverty alleviation programmes and public works. The results of this study are discussed in Table 31 In each area, the issues and proposals for improvement are indicated. They illustrate, in general, the pedestrian way in which the techniques are applied (or in the case of poverty alleviation programmes where greater reliance is placed on public trust and none at all on the techniques of expenditure management) and in the manner in which programmes are designed. It is hardly necessary to emphasize that unless greater attention is paid to expenditure management in the design stage, the utility of the system would be far less than expected.

Table 30 Sikkim: Monthly Flows of Receipts and Expendtitures

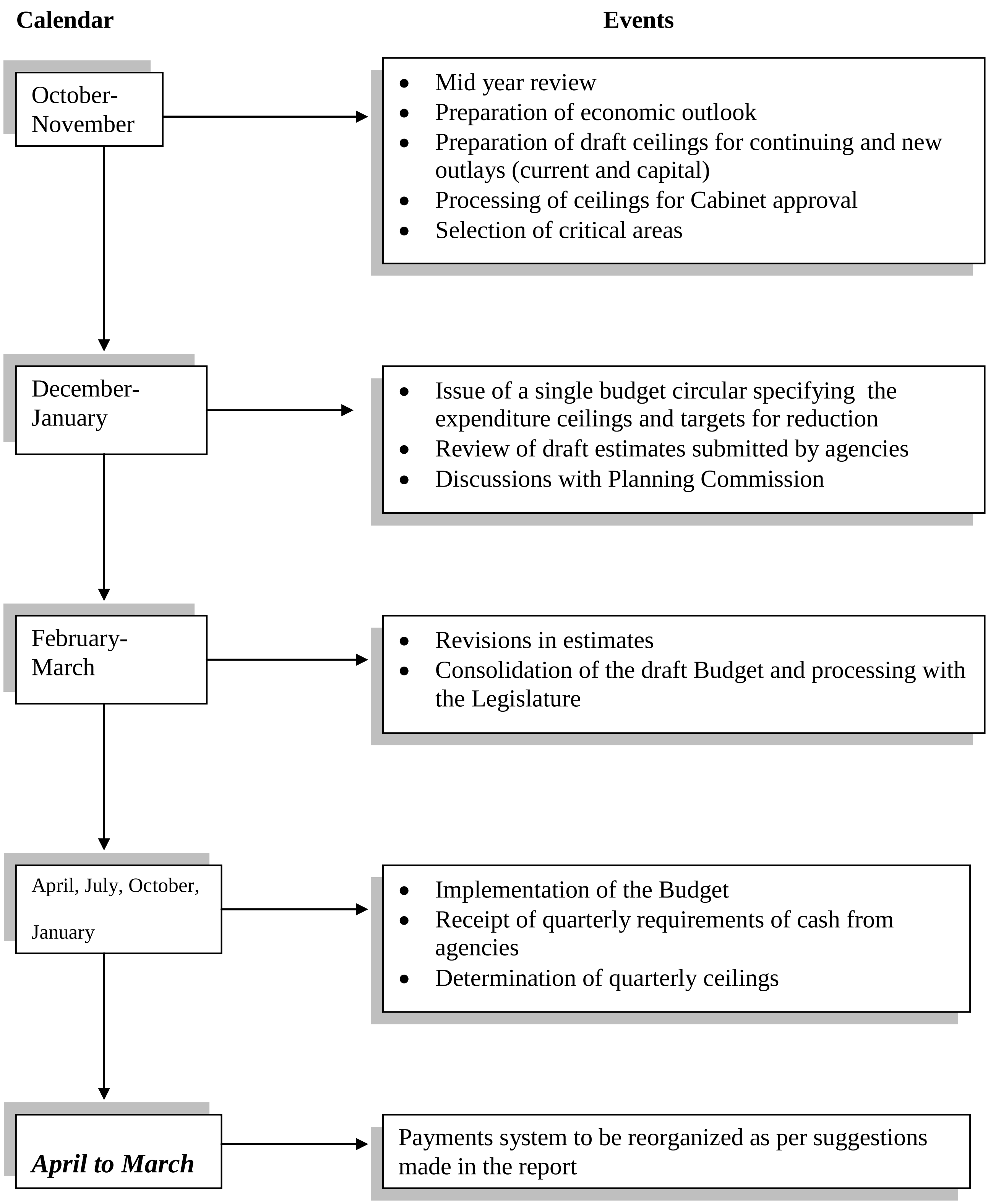
		April	May	June	July	August	Sept.	October	Nov.	Dec.	Jan.	Feb.	March(p)
Receipt & Expenditure form 1st April 2001 to 31st March 2002 as per Civil Accounts													
1	Revenue Receipts	10252.19	10252.19	10252.2	4870.05	6219.44	5606.53	7744.07	6077.75	5655.82	14517.82	4731.88	95184.91
2	Revenue Expenditure	8523	8523.02	8523.05	4049.7	5097.58	4470.4	7057.06	3978.44	3359.71	11174.47	4174.78	95365.61
3	Revenue Deficit (2-1)	-1729.19	-1729.17	-1729.15	-820.35	-1121.86	-1136.13	-687.01	-2099.31	-2296.11	-3343.35	-557.1	180.7
4	Capital Outlay	502.45	503.23	503.24	620.58	1534.15	871.58	2468.28	909.86	893	1113.66	838.44	10209.65
5	Net Lending	-7.59	-7.59	-7.58	-7.42	-8.05	-9.25	-8.56	-5.8	-5.25	-10.82	-8.87	-8.04
	Fiscal Deficit (3+4+5)	-1234.33	-1233.53	-1233.49	-207.19	404.24	-273.8	1772.71	-1195.25	-1408.36	-2240.51	272.47	10382.31
	Net Public Debt	728.24	728.24	728.23	344.24	338.52	-27.66	798.29	1202.33	-642.92	733.24	488.46	268.26
Receipt & Expenditure form 1st April 2002 to 31st March 2003 as per Civil Accounts													
		April	May	June	July	August	Sept.	October	Nov.	Dec.r	Jan.	Feb.	March(p)
1	Revenue Receipts	7374.85	7987.29	35444.47	7130.69	29496.86	11232.64	24500.73	8775.71	20787.78	7227.42	22319.81	25240.62
2	Revenue Expenditure	5302.37	5168.92	33584.69	8166.33	26235.59	7462.84	22071.65	5388.14	20250.04	6553.28	18504.2	29496.07
3	Revenue Deficit (2-1)	-2072.48	-2818.37	-1859.78	1035.64	-3261.27	-3769.8	-2429.08	-3387.57	-537.74	-674.14	-3815.61	4255.45
4	Capital Outlay	78.7	363.51	1050.89	846.68	638.19	656.25	1877.52	509.63	1535.47	1571.52	2074.72	9594.87
5	Net Lending	-11.37	-9.58	-17.03	-11.53	-11.36	-12.36	-8.84	-6.31	-7.98	-8.49	-13.72	-2.53
	Fiscal Deficit (3+4+5)	-2005.15	-2464.44	-825.92	1870.79	-2634.44	-3125.91	-560.4	-2884.25	989.75	888.89	-1754.61	13847.79
	Net Public Debt	181.46	318.98	-120.81	164.7	998.61	255.22	430.94	-132.53	146.75	1244.53	-201.52	464.28
Receipt & Expenditure form 1st April 2003 to 31st March 2004 as per Civil Accounts													
		April	May	June	July	August	Sept.	October	Nov.	Dec.	Jan.	Feb.	March(p)
1	Revenue Receipts	8272.56	6038.87	10003	10947.29	9927.62	4889.45	5892.53	7273.72	7550.14	9460.22	7430.29	46542.55
2	Revenue Expenditure	6036.09	5520.8	8534.84	9954.42	8728.68	7664.41	5400.72	7354.22	6310.79	3408.45	5019.1	44160.45
3	Revenue Deficit (2-1)	-2236.47	-518.07	-1468.16	-992.87	-1198.94	2774.96	-491.81	80.5	-1239.35	-6051.77	-2411.19	-2382.1
4	Capital Outlay	7.28	716.06	1499.45	2298.77	407.4	2662.7	503.27	587.8	2842.12	681.99	814.69	8127.13
5	Net Lending	-12.44	-14.79	-6.12	-9.72	-11.53	-10.57	-6.21	-5.42	-7.33	-5.08	-5.6	-3.4
	Fiscal Deficit (3+4+5)	-2241.63	183.2	25.17	1296.18	-803.07	5427.09	5.25	662.88	1595.44	-5374.86	-1602.1	5741.63
	Net Public Debt	317.1	667	-451.45	346.09	49.48	241.68	1225.73	-534.49	954.43	575.67	1010.62	882.46

Table 31 Expenditure Control in Practice: Four Cases

Area	*Features*	*Issues*	*Proposals*
I. Control of Policy	• Projects and programs as well as now policies are required to be approved by Planning and Finance Department. For Plan projects, guidelines and prescribed formats are available.	• New policies are usually under estimated. Plan guidelines are ot always complied with. • The emphasis is only on new policies and projects and not on weeding out the existing ineffective programmes. • The orientation is too short-term.	• At this stage of development and reorganizing the role of the State as a facilitator, it is necessary that a fundamental review is undertaken to reduce the unproductive expenditure. • As an integral part of the above alternative mechanisms, such as public-private partnerships, should be explored. • A medium term outlook needs to be developed.
II. Control of Personnel	• In general there is an embargo on the creation of posts. A scheme for voluntary retirement is in operation. • Creation of senior posts requires the approval of Personnel Department. Lower level posts can be created by Heads of departments where budget funds are available.	• The mechanisms in place have not been effective. • Department of Personnel has no monitoring responsibility.	• A proactive stance needs to be taken hereafter to reduce personnel. • The requirements of each agency need to be reviewed as was done in 2002, and manpower ceilings should be indicated. • Targets for reduction should also be included.
III. Poverty Allevia tion Programme • Swarna Jayanti Gram Swarojgar Yojana • Sampoorna Grameen Rozgar Yojana • Rural water	• Organizing self-help groups to take up income generating employment. • Targeted to rural poor below the poverty line. • Divided into two streams. • Payment of 5 kg. of foodgrains as wages to those rural poor who are engaged in unskilled labour at minimum wage. • Provision of safe drinking water to rural households. • Provision of	• An amount of Rs. 46 crore has been spent on these schemes. • The main issues relate to the determination of the eligible poor and needy. As in practice now, they lend themselves to systemic abuse.	• It is expected that in small and compact societies, any abuse of the system would be quickly identified in the rural areas. It is held that this approach is far more effective than piling up with more conditions as part of schemes. • It is necessary that the schemes are reviewed and audited, from time to time, whether the intended benefits are being determined by the targeted groups.

Area	Features	Issues	Proposals
supply • Rural sanitation • Modal village • Rural Housing Scheme	household latrines. • Construction of houses for the rural poor. • Financial assistance and GoI sheets are provided to the needy.		
IV. <u>Control of Public Works</u>	• There are several components – roads, bridges, rural roads and others. • Most programmes are taken up as a part of Plans and most of them are Centrally aided – although the rate of contribution varies from one programme to another. • Construction estimates made by the concerned departments form the basis for budget estimates.	• The major issue relates to cost escalation. The budget estimates are based on initial estimates but the contracted cost tends to be very different. • Most of the maintenance work continues to be directly done by the departments themselves.	• A Reserve Fund may be set up to cover the excess over estimates. • For internal purpose maintenance needs to be done with reference to contracted cost. • The anchor of expenditure management in this area should be the estimates based on completed contract cost. • The maintenance work should be considered for contracting out and the headquarters establishment of departments should be considered for reduction.

Figure 15 Sikkim: Revised Budgetary Process (to be operated on computerised basis)



5.7 Procurement and Contracting out:

Different procedures are in operation for procurement in that while departments of Education and Health are allowed to secure their supplies through open tendering and contracting, other departments have to get their supplies through specified public sector undertakings – a process that tends to be costlier and somewhat lengthy and time consuming. This also adds to the cost of providing services as the specified public sector undertakings are not necessarily the most competitive in cost and quality terms. Moreover, most services are directly provided by government departments.

It is important that the agencies are encouraged in all cases to promote open tendering and contracting. On the other side, it is also necessary to contract out services, particularly in urban management, and a network of contractors and non-governmental organizations are encouraged to provide publicly funded services.

5.8 Payments and Accounting

Most payments are made in the form of cash – a process that is labour intensive and expensive as well. The accounting system, while in conformity with the practices laid down by the Indian Audit and Accounts Department, shows that there are minor deviations from the guidelines, in so far as the operations of the local government are concerned. It is appropriate that a separate office is set up to operate payrolls and pensions on a computerized basis. This approach is economical and efficient too. As for the accounting system, it is important to review the actual operations at the local level, to ensure whether they are meeting the administrative requirements of those levels.

5.9 Financial Management in Spending Departments

It is a truism that rigorous application of the techniques of expenditure management by the Department of Finance at the apex of the government is not effective, unless there is a financial conscience in the spending departments. Such a conscientious approach would develop only when there is a partnership between the Central agencies and the spending departments. In order to permit such a partnership it is necessary that the system in the spending agencies is also computerised so that an on-line dialogue may develop between the two sides. Furthermore, it has to be recognized that with the gradual development of the infrastructure, the application of computerized system is rendered easy.

5.10 Transparency and Accountability

The issues relating to the budget classification system have been noted earlier. In the day to day working of this system, it is noted that several lumpsum provisions are made in the budget. These provisions, by their very nature obscure the purposes and destination. It is important that these approaches are avoided and greater detail provided.

Under the present system, the accountability is only in terms of the amounts spent. As a consequence, the purposes of the outlays, or the performance expected are never clarified. Accountability should include responsibility for results. Money spent reflects only one dimension. It is important that efforts are made to expand the scope of accountability to be inclusive of the performance aspects too. In this connection, the earlier discussion on the preparation of a performance based budget is very pertinent.

5.11 Staff Training

The strengthening of the capacity for fiscal reforms also rests, in addition to the systemic aspects, on the development of human skills. As it is, there is an inherent and a clear need for development, through an intensive training programme for the local officials in expenditure management. This need is doubly reinforced by the measures for the improvement of the system suggested in this report. The training programme in this regard should adopt a two tier approach – one for senior officials, and another for middle level and operational level officials. For the former, it should be an orientation programme so that policy makers could have a detailed picture of the existing system and the proposed system. Without their understanding and continuing commitment, it would be difficult to sustain the reform. For the latter group, a more intensive programme of training with longer duration should be considered. Moreover, Refresher Programmes for both levels should be considered at periodic intervals.

Supplementing the above effort, it is necessary to prepare a Hand Book to serve the purposes as a desk reference for officials. The preparation of such an Hand Book based on the existing practices would have, however, very limited value. Rather, the Hand Book should take into account all the proposals made for improvement. The implementation of the proposals would be feasible only in the medium term. The proposals need to be considered by the Government of Sikkim and only after a decision is made, in principle, to implement them that the preparation of a Hand Book can be taken up. These aspects were discussed with the senior officials of the Department of Finance and it was agreed that it would be more appropriate after a decision(s) is taken on the recommendations of the team.

5.12 Expenditure Management in Lower Levels of Government

Although the 73rd amendment to the Constitution was approved some time ago, in Sikkim, the implementation of the decentralization programme was started only a couple of years ago. As an integral part of this effort some subjects specified in the 11th Schedule have already been transferred and more are expected to be transferred in due course. It is an evolving area where the progress made at each stage is carefully evaluated before taking the next steps. Caution in this regard is only appropriate as any major leakage or failure could cast serious doubts about the whole programme of decentralization.

The task of designing the budgetary and accounting systems in Panchayat Raj Institutions (PRI) was entrusted, on the basis of the recommendations of the Eleventh Finance Commission, to the Comptroller and Auditor General of India (C&AG). Accordingly, the formats for budgets and accounts were designed and instructions were issued to all State Governments to implement them. The formats are fairly detailed, but they made no distinction, in terms of applicability, between the three levels of PRI. The introduction of the system prescribed by the C&AG is based on the assumption that there is adequate trained personnel at each level to operate the system. Indeed, in some cases, it may even require the assistance of a professional Accountant.

In Sikkim, there are only two levels of PRI, and taking into account the incipient stage of the administrative capacity both at the village and the District levels, the implementation of the system is rendered difficult. The latter is far more advanced than the former primarily for the reason that it is endowed with staff resources that are not available for village levels. Keeping these and related factors in view, the Department of Rural Development in Sikkim, reduced the number of formats to be maintained while keeping the essential structure in tact. As these formats were in not full compliance with the system designed by the C&AG, the issue was raised whether more should not be done in the PRI to ensure a better implementation of the system. Following this, the number of formats has been increased and a new system, while still not being in compliance of the full system designed by the C&AG has been agreed to between the Government of Sikkim and the Accountant General (representing the C&AG). Meanwhile, each village Panchayat was given an amount of Rs. 10 lakh, and Zilla Parishads Rs. 50 lakhs to implement the proposed budgetary and accounting systems. In addition, the audit of PRI, was entrusted to the State Accountant General.

There can hardly be any debate on the desirability of a comprehensive and transparent budget and accounting system in the PRI, particularly in a context, where, with the progress of time, more and more tasks would be transferred to the PRI and corresponding arrangements made to provide financing too. The proposed system can, however, prove to be both complex and formidable in view of the fact that it envisages, among others, the maintenance of an inventory of assets, as well as the computation of depreciation – twin aspects that were not hitherto a part of the Indian government accounting tradition. Though the preparation of these records has been rendered easier, thanks to the availability of off-the-shelf software, it has to be noted, that the use of computers is very limited in Sikkim. In recognition of this, the Department of Rural Development has conducted training programmes for the officials of PRI in Book keeping and other areas. Notwithstanding these efforts at enhancing the capacity in PRI, the fact remains, as noted in the reports of the Internal Auditor, that even the maintenance of Cash Register, a relatively easier task, is in arrears. It is therefore prudent to keep the issue under constant review and devise additional practical steps that make the installation of the budget and accounting system a reality.

5.13 E-Governance

Computerization of processes of various departments of the Government in administrative, revenue collecting, and related spheres contributes to improved efficiency. Use of information technology in government administration helps in streamlining various functions and through updating of information collected decision making becomes more scientific and transparent. Especially in revenue departments computerization facilitates collection of information and enforcement of various regulatory requirements of the departments and ensures that permits, licenses, and various kind of forms are issued without much of hassle. People also benefit due to their access to various official procedures, information in a transparent manner thus reducing harassment. The payment system becomes streamlined with the interface of official payment authority and the banks that helps in better expenditure management.

The Department of Information and Technology in the Government of Sikkim facilitates expansion of computerization in the functioning of departments. The department of IT has been procuring computers, organizing training for government officials and trying to expand the IT network in the state. Outside the government administrative departments, the IT department has established 40 Community Information Centers (CIC) to provide computer facility to large number of people in the state. National Informatics Centre (NIC) of Ministry of Information and Technology, GOI has taken a lead in Sikkim in disseminating IT facility in various departments and providing online data transfer facility. E-Governance in Sikkim however has a long way to go forward. Though availability of computers is not a problem for the state administration, the effective use of IT online has not taken off. The internet facility in the Government departments has been provided by the NIC by putting radio frequency hubs in various places. The Administration still uses traditional mode of large volume of paper work and manual data entry and file maintenance. The effective use of IT in these cases has the potential to reduce large manpower used for manual paper work and save time thus infusing greater efficiency in decision making. Given the topography of the State e-governance can be a very good way of collecting information, monitoring the progress of various projects and ascertain the requirements at line departments at a lower cost.

There has been some progress in the E-Governance in Sikkim besides establishing CICs. Some of the computerization programs in Government departments are described below:

- The land records of the revenue department have been computerized with help of NIC and now computerized certificates relating to land records are being issued. The computerization of land records has been completed in the state and in four districts and in revenue office in Gangtok land record centres were established. The computerized mutation of land records was extended to three sub-divisions and work is in progress in two more districts. However, the offices in districts and in capital function as standalone hubs due to absence of proper online connectivity and the information base at main office is updated after receiving the information on diskette from various districts.
- The General Provident Fund records have been computerized. The information relating to GPF is updated and certificates are generated.
- The four Pay and Accounts office that function as Treasuries as well are all computerized. The transaction from bill receipts to sending reports to AG's office and generating payment cheques are carried out with the help of computers. However, there is no online connection among the treasuries or with the main finance department.
- Progress has been made in providing photo identity card through NIC and electoral revisions are carried out.
- The information on prices of agricultural products is provided through web. This project is implemented for two major markets at Rangpo and Melli. The daily price list of products is available in the portal. The CICs becomes handy for this information as the CIC operators at various places make people available the price lists by downloading from the web site.
- Some computerization work has also been done in the Home department.
- Sikkim Nationalised Transport Department started using computers to feed the data relating to tax revenue and other incomes from its operation.
- The power department sends computerized electricity bills in few urban areas
- The Government of Sikkim has discontinued with its earlier practice of issuing petrol coupons and started issuing Petro-cards to employees attached with Government vehicles.
- Information relating to Sarva Siksha Abhiyan has been computerized. Once again this is an stand alone information feeding in education department, which is not available to public

The Value Added Tax (VAT) was introduced in the State from 1st April 2005 that replaced the sales tax. The implementation of VAT in the state requires systematic effort to computerize the functioning of the Commercial Tax Department. The successful implementation of VAT needs computerization of commercial tax department starting from the check posts to the regional offices and the main office in Gangtok and comprehensive training of tax officials to manage all the operation of revenue collection. The department should also build an interface with general public and traders who will be able to get the information on Tax Acts and procedures and be able to download the required forms. The Government of Sikkim has entrusted the task of computerization of functioning of commercial tax department to NIC who have the experience of developing the software for tax departments for other states.

The process of moving towards a comprehensive E-Governance, which can improve the efficiency and reduce cost of administration, has many stumbling blocks. One of the major problems of computerization in the State is lack of basic internet connectivity that is the backbone for IT infrastructure. The computerized hubs established in districts and in various offices could not be connected online in turn impeding the transfer of information and data. Priority should now be given to tackle this problem. In the context of computerizing commercial tax department, the flow of information on traffic of goods imported and exported needs to be collated and online facilities of issuing forms bills to be provided to traders for which faster connectivity is required.

The computerization of land records is a significant achievement. The next step should be to use this information in the operation of transactions in lands. The stamps and registration fees collection on transactions in land can be computerized that would simplify the process and reduce much of the work load. It will have its impact on collection of revenue as well. The computerization of property tax collection in urban areas after the urban local bodies come into existence will be a logical next step. The collection of water charges and other fees can be a part of integrated computerization of urban administration system. Presently the computer generated electricity bills are given only in major urban areas. This process further needs to be extended to rural areas as most of the electricity consumption has been metered. The Transport department should prepare a comprehensive computerization plan encompassing the operation of registration, annual fee collection and updating of vehicle population data in the state. The online information of the Transport department will enhance the vigilance efficiency and impact upon the revenue collection.

Another problem associated with E-Governance is the manual functioning of State Bank of Sikkim. The State Bank of Sikkim handles all the financial transactions of the State Government. It has no interface with the State Treasuries and the manual operation of the bank slows down the financial operation of the Government. This needs to be rectified urgently to improve the cash management of the Government.

The physical infrastructure created in the state in terms of roads, bridges, buildings, and water supply system and their maintenance are all the responsibility of the Government. Various departments like Urban Development, Rural Development and Management, PWD, and PHE handle most of the operations relating to building infrastructure in the state. The management of various projects, procurement of materials, monitoring the progress of projects to ensure timely completion requires an efficient Management Information System. E-Governance in the government should also give priority to these sectors that would reduce cost over run and improve the quality.

E-Governance is a comprehensive process that not only improves the efficiency of the Government; it also makes the system transparent and reduces scopes for corruption. It increases the interface with the public and quality of services provided by the Government improves. The information base of the Government department increases as it helps generating more revenue. The success of computerization depends to a great extent on the participation of the departments by providing timely information and updating their data base. The basic IT infrastructure in terms of connectivity across various regions of the state needs to be improved. The Government websites should be maintained properly with regular updating of information for the general public.

5.14 Implementation Issues

Recommendations made in the preceding sections are farreaching in nature and have the aim of transforming an outmoded model into an effective functional system that serves the changing needs of the society. Given the complexity of the recommendations, the issue arises whether the authorities have the requisite capacity, analytical and implementational, to bring about the transformation inherent in the proposals. Preliminary indications are that such a capacity is not, as yet, locally available. In such a situation, one approach traditionally followed is to organize seminars and workshops. Experience, however, shows that the benefits of such an approach, while laudable, are not generally adequate for the tasks at hand. A second approach followed in other cases, is to place an Expert for a short duration, so that he/she could assist the local officials at every step of the way. Such an approach while imparting the necessary on-the-job training would facilitate the transformation process. The Expert could guide the local officials on the measures to be taken and assist them in developing the supporting infrastructure. It is therefore suggested that once decisions are taken on the next steps in implementation, the services of an Expert may be made available, for three months, to the Government of Sikkim.

6. Design of Government

It is often remarked that the totality of government is more than the sum total of its parts. The perceptions of the community which is at the receiving end of the services provided by government, deal with the totality of government. This totality in turn comprises the number of public institutions, structures of organizations, facilities available to the public to reach the government, and management styles. These aspects have not been reviewed before in Sikkim.[4]

6.1 Reasons for Enquiry

There are now several factors which indicate the importance of a more detailed review. First, the relationship between the size of the community and the size of government needs to be explored. As an integral part of this effort, the cost of services also needs to be identified and where appropriate efforts may be required to reduce it. Second, as noted above, these aspects have never been addressed before. Initially when provincial governments were organized, they were designed to be microcosms of the Central government. The same pattern continued even after the Constitution came into effect. The State list of subjects left the matter, by implication than specification, the design of the government at the State level to the States themselves. But the territorial size, and the population levels at this time were sizeable, and in any event, no attempt was made to examine the issue of the design of governments at the subnational level. Even the States Reorganization Commission whose recommendations paved the way for the formation of States on linguistic basis did not address the issue. The Planning Commission, whose Plan documents devoted extensive space to the delineation of the tasks of administration and the improvements needed, did not raise this issue. It was as if it was almost a non issue. This benign neglect contributed to the continuation of State level administrations as a mirror image of Central governments. Meanwhile, there has been a growth of several State governments that were small in size territorially and population wise.

Third, there has been considerable growth in the number of departments both at the Centre, and in the States including Sikkim. Most departments were established to implement various Central and State schemes and as the economic activity in the State came to revolve around the government, its size also grew rapidly. For example, when the implementation of the Prime Minister's rural roads programme was announced, practically a new department was established to carry it out. The

4 The manpower status and the ways of reducing it were reviewed in detail in Sikkim: Man Power Review, 2002, by S.D. Tshering, Government of Sikkim, Gangtok. Some of the recommendations made in this report have been accepted and implemented by the Government of Sikkim.

growth was ad hoc and at no stage was attention paid to the design of government that would be appropriate for the size of the population of the State.

Fourth, as the size of government grew, the number of employees also grew and so were the perquisites that were provided them. The total number of employees now stands at 39,773 (Table 32); the number of IAS officers in the State is 43, with a complement of 259 officers drawn from Sikkim Civil Service, all to serve a population of a little more than a half million. The per employee salary expenditure is high. In fact, the highest level of per employee expenditure, among the North-Eastern States, according to the Tf.F.C. is found in Sikkim (at Rs. 121,684: Table 33 shows the comparison).

Fifth, it is also to be noted that the policy formulation expenditure for the State which was around 5.25 per cent of the total expenditure in 2004-05, has gone up, according to the Budget Estimates for 2005-06, to a little more than 7 per cent. In reality, however, most policies implemented at the State level are formulated at the Centre and very little adaptation takes place at the State level. In this context, the question arises whether such a high share of expenditure should be incurred in Sikkim for policy formulation. Table 34 provides data on policy formulation outlays.

Finally, the ad hoc growth in the size of government has also contributed to excessive fragmentation and to additional layers in the hierarchical system.

To sum up, if sustainable public finances are to be achieved, it would be necessary to revamp the administrative machinery so that it is in accord with the size of the population to be served by it.

6.2 Way Forward

In reorganizing the administrative structure, it is important to keep in view the following considerations: (a) it is to be noted that with the full implementation of the 73rd amendment of the Constitution, *al beit*, in a phased way, more and more tasks will be devolved to the district level of administration. When such devolution takes place, there would be a corresponding reduction in the work to be transacted at the State Headquarters. In turn, this paves the way for restructuring of the State administration. (b) The excessive fragmentation and layering should be avoided and levels of processing of subjects should be reduced to the minimum. A measure of consolidation is urgently needed. (c) The establishment of Gangtak as a Municipality would lead to the transfer of work to a lower level; and (d) gradual introduction of e-governance in several fields and the administrative processes need to be abridged.

Accordingly, a consolidation of departments has been formulated and illustrated in Figures 16, 17 and 18. Figure 16 shows the new structure of departments. This structure envisages a consolidation of 42 departments into 15 without any loss of efficiency. Figure 17 shows the departmental consolidation envisaged. Figure 18 Shows the proposed departmental structure which is basically reduced to four levels – Section Staff, Section Head, Division Head and Departmental Secretary. Each division would be headed by a senior official who would be responsible for oversight and final decisions. The Secretary, while assisting the Minister would be responsible for the overall performance of the department. Many policies would be formulated as a part of the medium term rolling plan and most of the daily work would deal with the deviations from accepted policies or removal of obstacles. He would also be responsible for the financial management of the department.

6.3 Adjustment Process and Costs:

Admittedly, the proposal is far reaching in its implications and represents a point of major departure from the traditions of administration in Sikkim. But departures are necessary if administrative burden is not to endanger fiscal sustainability. The issue arises whether there are other approaches, other than those indicated above, to address the situation in Sikkim. In this context, it has to be recognized, that during the past decade, more so during the preceding five years, the number of people working in Government was ratcheted up at frequent intervals through the absorption of many temporary employees and converting them into regular categories. The growth in personnel was later sought to be tampered through the introduction of voluntary retirement schemes, introduction of programmes for the redeployment of personnel, and through bans on the creation of new posts. None of these approaches yielded any enduring results primarily for the reason that the Government was also pursuing, at regular intervals, a policy of converting temporary positions into permanent ones. In the process, the Government has admittedly become an employer of both the first and last resorts. The cumulative impact is the creation of an overblown administrative state that is way beyond the needs associated with the local population. A continuation of the existing policies can only lead greater administrative costs that would be untenable from any point of view. A clear departure from the previous practices is clearly indicated. The new approach should be different from the approaches followed during preceding years. If social costs are to be minimized, the implementation process should take the following path.

(i) The introduction of the plan should be undertaken in a phased manner. To start with, the consolidation approach may be applied to a few departments and extended to other departments at a later stage.

(ii) Simultaneously, an effort should be made to computerize many operations.

(iii) Since the result will be a reduction in the number of employees, immediate action should be taken to stop recruitment at all levels including for All India Services. In addition, all vacancies stemming from the normal attrition process (e.g., retirement, death, etc.) should remain unfilled for the rest of the fiscal year, and abolished thereafter.

(iv) Displaced persons should be given an additional weightage of say 5 years for the determination of pension payable so as to make the severance package attractive.

(v) The surplus personnel should be provided cheap credit so that they could envisage alternative employment opportunities. Various vocational training programmes should also be organized.

(vi) In all these phases, care should be taken to ensure that there is no discrimination, and that there is an adequate dialogue between government and staff representation. While there would be short term higher costs, it has to be recognized that it is for the larger good of the community.

(vii) The retirement benefits should be funded from a Special Fund that would entirely be financed by new borrowing (issue of long term bonds).

6.4 Administrative Reorganization and Personnel Adjustment

The preceding discussion illustrates conclusively that in its present from the design of the government machinery and its associated personnel management is untenable and there is an imperative to launch measures aimed at rectifying the situation. Toward this end a two track approach has been delineated in the above paragraphs: (a) administrative reorganization with focus on compression and consolidation of agencies; and (b) formulation of a package of measures, including incentives, to facilitate a gradual reduction in the Personnel levels. There is a need to send the message to the future entrants into government service to be prepared for major reductions and to have diminished expectations.

The implementation of the measures requires, as an essential condition precedent, the recognition of the following: (i) the proposed reorganization is limited to the secretariat and does not extend to the field agencies; (ii) the reorganization has to be introduced on a pilot basis; (iii) while the reorganization is specific to the departments concerned, Personnel adjustment cannot, however, be viewed in a segmented view as employees are members of either All India Services or State Services, which brings in additional complexity. Abolition of posts in a department does not render the holder of that post superfluous, as he/she is a member of a Service where the exit procedures follow the seniority rules (iv) the essential message in regard to personnel adjustment, is the adoption of attrition as a policy measure.

Retirement should follow the steps indicated here: (a) recruitment to all Services should be held in abeyance for five years; (b) those holding temporary posts and are, therefore, not yet entitled to pension benefits, should as a preliminary step be considered for retrenchment; those who are within five years of retirement should be given that additional weightage of years foregone (5). These measures contribute to a reduction both at the top and in terms of new entrants. These measures would avoid the employees taking recourse to the judiciary on charges of discrimination; (c) conversion of temporary posts into permanent ones should be held in abeyance until the situation is reviewed some time in the future; and (d) the package should include the incentives enumerated.

The design seeks congruence between post – person – power and tasks – and, accountability.

Table 32 Statement Showing Total Regular, Work Charged and M.R. Employees

Sl. No.	Departments	Total No. of regular employees		Work charged employees		M.R. Employees		Agan-wadi Workers	Total
		Plan	Non Plan	Plan	Non plan	Plan	Non plan		
1.	Animal Husbandry, Livestock, Fisheries and Veterinary Services	152	451	--	1	431	26	--	1061
2.	Buildings	46	154	34	63	128	179	--	604
3.	Co-operation	19	143	--	--	--	4	--	166
4.	Cultural Affairs and Heritages	58	49	--	--	18	--	--	125
5.	Commerce and Industries	152	209	--	--	26	438	--	825
6.	Planning, Economic Reforms and NEC	27	83	--	--	10	2	--	122
7.	Ecclesiastical	--	76	--	--	--	20	--	96
8.	Election	--	32	--	--	--	--	--	32
9.	Excise	--	121	--	--	--	3	--	124
10.	Energy and Power	629	610	128	855	108	1597	--	3927
11.	Food Security, Agri. Department	36	414	--	--	444	--	--	894
12.	Finance Department	--	466	--	--	--	67	--	533
13.	Food, Civil Supplies and Consumers Affairs	18	172	--	--	--	36	--	226
14.	Forest & Environment	202	754	13	3	771	98	--	1841
15.	Governor	--	74	--	--	--	4	--	78
16.	Human Resource Dev.	2836	6359	--	11	41	46	--	9293
17.	Health	844	1382	11	10	83	185	--	2515
18.	Home	--	401	--	--	--	82	--	483
19.	Horticulture Dev.	34	278	--	--	379	--	--	691
20.	Information and PR	--	97	--	--	--	22	--	119
21.	Information Tech.	--	--	--	--	52	--	--	52
22.	Irrigation and Flood Control	85	33	6	90	146	--	--	360
23.	Judiciary	--	282	--	--	--	--	--	282
24.	Labour	4	24	--	--	15	--	--	43
25.	Land Revenue Mag.	1	424	--	--	--	47	--	472

Sl.		Total No. of		Work charged		M.R. Employees		Agan-wadi	
26.	Law	--	72	--	--	--	8	--	80
27.	Legislature	--	162	--	--	--	12	--	174
28.	Mines, Minerals	15	38	--	--	17	--	--	70
29.	Motor vehicles	--	62	--	--	--	--	--	62
30.	Parliamentary Affairs	--	10	--	--	-	2	--	12
31.	Personnel	--	79	--	--	--	3	--	82
32.	Police	--	3969	--	--	--	458	--	4427
33.	Printing	37	112	--	--	--	7	--	156
34.	Public Service Commission	--	24	--	-	--	--	--	24
35.	Roads and Bridges	84	310	--	203	--	3134	--	3731
36.	Rural Management and Development	337	105	197	--	535	--	--	1174
37.	Science and Tech.	21	--	--	--	--	--	--	21
38.	Social Justice, and Welfare	150	75	--	--	34	5	1991	2255
39.	Sports and Youth Affair	30	46	--	--	19	--	--	95
40.	Transport Department	--	830	--	54	--	105	--	989
41.	Tourism	32	70	--	--	56	--	--	158
42.	Urban Development	60	186	29	--	26	296	--	597
43.	Vigilance	--	81	--	--	--	4	--	85
44.	Water Security & PHE	45	76	--	141	37	318	--	617
	Total	**5954**	**19395**	**418**	**1431**	**3376**	**7208**	**1991**	**39773**

Table 33 Sikkim: State Government Employees and Salary Expenditure

States	Per employee salary				Number of employees	
	1994-95	**1995-96**	**1997-00**	**2002-03**	**1994-95**	**2002-03**
Arunachal Pradesh	48040	51369	79101	98221	33222	41165
Assam	36895	41616	60709	83720	413464	435534
Meghalaya	53434	62001	73934	113808	36194	49813
Sikkim	42665	49012	100815	121684	19522	23973
Tripura	34891	50654	59654	99631	90300	98379
Weighted average for 21 States	41968	47398	75364	94603	7947292	7824012

Source: Report of the Twelfth Finance Commission, Government of India, February 2005.

Table 34 Sikkim: Expenditure on Policy Formulation and Management

	Departments	2004-05 BE	2005-06 BE
1.	Food Security and Agri. Development	106.85	134.98
2.	Animal Husbandry, Livestock, Fisheries and Veterinary Services	116.05	104.50
3.	Building and Housing	278.28	270.16
4.	Co-operation	183.44	149.62
5.	Cultural Affairs and Heritage	49.95	56.64
6.	Ecclesiastical	87.80	78.40
7.	Human Resource Development	435.53	443.86
8.	Election	57.00	56.85
9.	Excise	162.18	190.41
10.	Finance, Revenue and Expenditure	268.45	276.60
11.	Food, Civil Supplies and Consumer Affairs	150.19	169.46
12.	Forest and Environment Management	77.11	79.48
13.	Health Care, Human Services and Family Welfare	210.36	307.35
14.	Home	803.58	739.17
15.	Horticulture and Cash Crops Development	104.81	110.76
16.	Commerce and Industries	137.25	151.38
17.	Information and Public Relations	6.45	9.67
18.	Information and Technology	78.00	79.00
19.	Irrigation and Flood Control	149.55	160.93
21.	Labour	65.50	66.40
22.	Land Revenue and Disaster Management	73.13	70.38
23.	Law	62.31	63.10
24.	Legislature	222.20	229.60
25.	Mines, Minerals and Geology	114.66	135.29
28	Personnel	101.70	102.62
29.	Dev. Planning, Eco. Reforms, NEC	108.83	2578.62
30.	Police	172.55	206.20
31	Energy and Power	1064.15	941.79
33	Water Security & Public Health Engineering Public Service Commission	213.60	205.39
34	Roads and Bridges	210.15	231.31
35	Rural Management and Development	187.74	217.89
36	Science and Technology	45.00	45.00
37	Sikkim Nationalised Transport	242.90	242.47
38	Social Justice, Empowerment and Welfare	52.90	54.76
39	Sports and Youth Affairs	89.03	117.30
40	Tourism	135.79	137.84
41	Urban Development and Housing	145.22	141.62
	Total	**6770.19**	**9356.80**
	Total Expenditure excluding Lottery & Repayment	**128919.33**	**130404.52**
	EPF Percentage to Total Expenditure	**5.25**	**7.18**

Figure 16 Sikkim: Proposed Departmental Structure

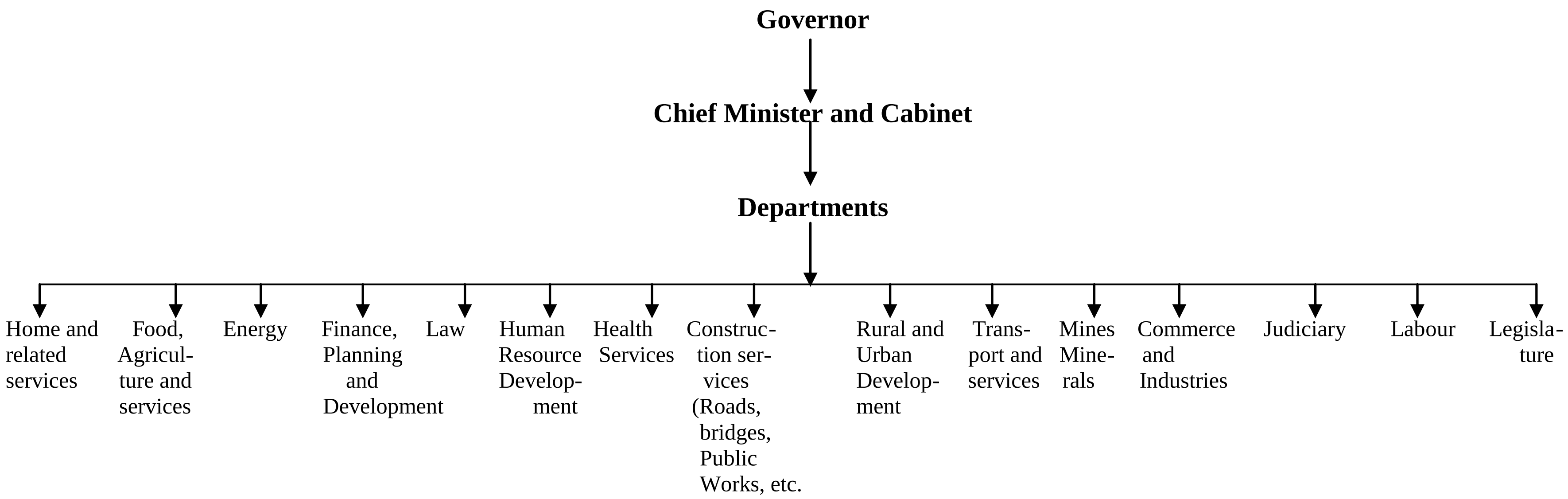
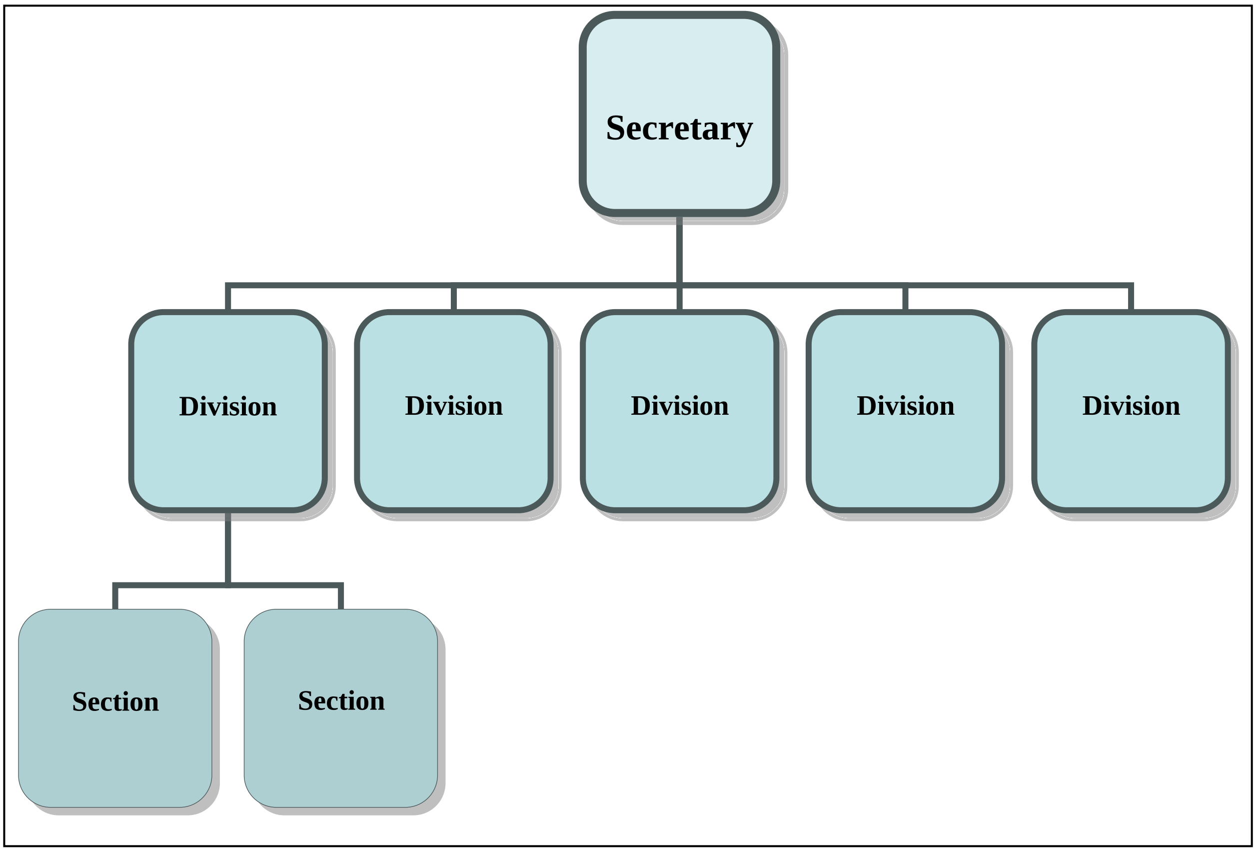


Figure 17 Sikkim: Departments and Divisions

Home and other administrative services	Food, Agriculture related services	Energy	Finance, Planning and related services	Law	Human Resource Development
• Department of Personnel, Training, etc. • Home • Land Revenue and Disaster Management • Parliamentary Affairs • Printing and Stationery • Police • Vigilance • Information and Public Relations	• Animal Husbandry, Livestock, Fisheries, Veterinary services • Cooperation • Food Security and Agriculture • Forest, Environment and Wild Life • Food, Civil Supplies and Consumer Affairs • Horticulture and Cash Crops	• **Energy and Power**	• Development, planning etc. • Excise • Revenue and Expenditure	• Law • Election	• Cultural Affairs and Heritage • Ecclesiastical • Human Resource and Development • Sports and Youth Affairs • Science and Technology • Information and Technology
Health	**Roads, Bridges and Public Works and related services**	**Rural and Urban Development**	**Transport and related services**	**Mines, Metals, etc.**	**Commerce and Industries**
• Health Care and Family Welfare	• Roads and Bridges	• Buildings and Housing • Rural Management • Social justice, Empowerment and Welfare • Urban Development and Housing • Water security and Public Health Engineering	• Transport • Tourism • Motor vehicles • Sikkim Nationalized Transport	• Mines, Minerals and Geology	• Commerce and Industries

Figure 18 Sikkim: Departmental Structure - An Illustration



7. Department of Finance: A Revised Structure

Conceptually, the Department of Finance is at the heart of the Government in that all matters that have financial implications and all issues involving resource mobilization and resource allocation are expected to be considered by it and public policies formulated. It is responsible for the specification of the medium and short term objectives of fiscal policy and for their translation into day to day administrative actions. Financial planning in general and more specifically, in the case of Sikkim, the management of Central transfers are also a part of the tasks of the Department of Finance.

Undertaking varied tasks and their management requires the Department to be organized on a functional basis. In organizing the Department, care has to be taken to ensure that it becomes an exemple to the rest of the Government. Its use of manpower should be minimum and the Department should demonstrate, to the rest of the Government, the uses of technology and related benefits. Evaluating from these criteria, the organization of the Department leaves a good deal to be desired. From time to time, some minor adjustments have been made in the Department but without any major impact on the form, content of the Department and, therefore, on the issues experienced. The problems with the present set up are five fold. First, Planning and Finance are separated with the result that an avoidable dualism in approaches has emerged in the preparation of the budget and in its implementation; second, the relations with the spending agencies have not been streamlined with the consequence that some of their budgets are finalized without the active involvement of the officers dealing with those agencies. The posts in question may be held by officers drawn from the All India Services, Sikkim Civil Service and Sikkim Finance and Accounts Service. Their attached functions seem to vary depending on the service of the occupant. Moreover, many proposals would appear to be finalized without their participation. Third, the Department, like many others is endowed with many officers and staff that are admittedly under employed. In a way, this has prevented the Department from having the requisite moral stature needed in advising the other departments to reduce their own staff. Fourth, regardless of the subject matter, the units of the Department are organized on a hierarchical basis and no alternative forms of organization are explored. Fifth, the use of computers is far from extensive.

With a view to addressing the above, it is suggested that the Planning and Finance Departments be merged. The new form of functional organization is illustrated in Figure 19. In addition to the integration of Planning and Finance, it is also important that internal audit is placed on an independent footing, with direct submission of findings to the Secretary (or Principal Secretary depending on the holder of the post). The relations with the other departments would, for the most part, conducted through the Policy Planning and Budget Management. In regard to the relations with other administrative agencies, it must be indicated that proposals, even at an embryonic stage are taken up with the Department of Finance.

Figure 19 Proposed Reorganization of the Department of Finance and Planning

Secretary

Divisions	Attached Offices
Policy Planning[1]	
Resource mobilization Resource allocation and medium term framework Development Plans Implementation monitoring Evaluation	District Planning Economics and Statistics National Sample Survey
Budget Management	
Preparation of Annual Budget Preparation of rolling Expenditure plans Expenditure control of departments and PSUs Guidance on contracts, etc.	
Tax Policy and Revenue Management	
Tax planning Other sources: Policy expenses Lottery -	Income tax and VAT Directorate Land Revenue Registration Excises
Accounts, Cash and Debt Management[2]	
Supervision of Pay and Accounts offices Cash and Debt management Preparation of financial reports	Pay & Accounts offices
Internal Audit Audit of Departments and Agencies	

1. Border Area programmes need to be shifted to the concerned functional departments
2. It is proposed that a separate office be organized for Payrolls, Pensions and Public Debt

In regard to payments, it is suggested elsewhere that a separate office for Payrolls, Pensions and Public Debt be organized to function on a computerized basis. Also, the staff of the Policy Planning be organized as teams rather than on traditional hierarchical lines. Finally, the budgetary process and an internal information system may be organized on a computerized system. This effort may involve some additional outlays but are well worth the goal.

8. Restructuring of Public Enterprises in Sikkim

8.1 Introduction

The State Level Public Enterprises (SLPEs) are an important component of the economy of the State of Sikkim not only from the viewpoint of investments, incomes and employment they generate, but also because they draw the fiscal resources of the state government. Any fiscal restructuring plan for the state will have to consider the functioning of the state enterprise sector carefully. For the same reason, any programme of capacity building for fiscal reforms in Sikkim will have to consider the issue of public enterprise restructuring. Capacity building is necessary both for running the potentially profit making enterprises efficiently and for retraining of the displaced employees. In order to strengthen the finances of the statre government, the issue of resource allocation and providing productive employment is clearly relevant and it is necessary to implement these reforms with a human face. The social and economic consequences of the re-engineering have to be kept in the backdrop while designing the strategies for this purpose and implementation of such strategies.

The investments in the SLPEs in the State of Sikkim have been increasing over the years. The performance, however, has not kept pace with the expectations. This divergence has adversely affected the state finances. The prevailing system with heavy dependence oin the government and public sector enterprises for promoting economic activity in the state is essentially unviable. Besides unproductive employment it generates and a sense of perennial dependency it leads to, this strategy essentially creates a hostile environment for the growth of the private sector5 activity. The time is ripe for the policy makers to have a fresh look about the portfolio for retention of the SLPEs.

This chapter deals with restructuring, divestment and privatisation of the SLPEs in the State of Sikkim through the preparation of the feasibility studies for each enterprise by giving due regard to the socio-economic consequences of such actions. Although, 11 SLPEs were identified for the detailed review, the Government of Sikkim (GoS) added another 11 SLPEs to the list. The GoS further included the Sikkim Nationalized Transport and the Sikkim State Energy and Power Department to the list as these activites are meant to promote major commercial activities. In terms of size they predominate and account for a significant proportion of investment, turnover, financial losses incurred and manpower. The Government later decided to exclude the power sector from the scope of the study. However, data on the broder dimensions of the power sector as related to the Sikkim Energy and Power Department and the Sikkim Power Development

Corporation have been included to provide a macro view of the SLPEs. Sikkim Handloom and Handicrafts Development Corporation, Sikkim Hatchery Ltd and Sikkim Poultry Development Corporation Ltd participated in the final lap of the study. The information was collected through the questionnaires on Financial and other related aspects concerning SLPEs (see Annexure 8.8), Schedule on Internal Organisaiton and Structure of SLPEs (see Annexure 8.9), and continuous interaction with the policy makers in the GoS and the top management of the SLPEs.

8.2 SLPEs in Sikkim: Classification and Structure

Sikkim state has used different organizational forms such as a departmental undertaking, public corporation and co-operative enterprise to set up enterprises depending on the objectives. Most of the enterprises have been set up after the integration of Sikkim in the Union of India. The enterprises that existed in the state before integration were Sikkim Nationalized Transport, State Energy and Power Department, State Bank of Sikkim, State Trading Corporation, Sikkim Fruit Preservation Factory, Tea Board of Sikkim Ltd and the Denjong Agricultural Co-Operative Society Ltd. The enterprises established after the integration of Sikkim with the country are Sikkim Jewels, Sikkim Times Company (SITCO), Sikkim Industrial and Investment Development Corporation Ltd (SIDICO), Sikkim Consumer Co-operative Society, Sikkim State Co-operative Supply and Marketing Federation Ltd (SIMFED) and Sikkim Co-operative Milk Producers Union Ltd (Sikkim Milk Union). The 1990s have seen a spurt of activity with regard to the setting up of the SLPEs. In this decade the enterprises set up included Sikkim Tourism Development Corporation Ltd, Sikkim Handloom and Handicrafts Development Corporation, Sikkim Poultry Development Corporation Ltd., Sikkim Hatchery Ltd, Sikkim Precision Industries Ltd, Sikkim Scheduled Castes, Tribes and Other Backward Classes Development Corporation Ltd (SABCCO), Sikkim Power Development Corporation Ltd. and Sikkim State Consumer Co-operative Bank.

There are 11 SLPEs under the Government Company form. Notably, the State of Sikkim continues to have its own Companies Act which was earlier promulgated by the Chogyal in 1961 titled as the Registration of Companies Act. Other forms of SLPEs include Public Corporation/Boards – 4, Co-operative Society – 5, and Departmental Enterprise – 2 (Annexure 8.1). A peep into the objectives of the SLPEs points out that the major purposes of their creation related to undertaking in the state sector manufacturing, trade and services, financial, promotional, welfare and utility sector activities. The manufacturing enterprises dominated the overall number, followed by trade and service, utility, welfare and promotional enterprises.

The SLPEs operated in markets varying from competitive to monopoly conditions. Some enterprises enjoyed captive market conditions initially but due to the liberalization policies adopted by the Government of India they are compelled to operate in competitive markets currently. Even in the field of utilities monopoly markets are assuming competitive character due to unbundling / strategic business group approach being adopted in power sector and cold privatisation being followed in the public transport corporations. However, this may not be true of promotional, welfare oriented and co-operative SLPEs as they have a specific mandate of helping the weaker sections of the society and foster the growth of given activities, on the one hand, and protect the interest of the members of cooperateves on the other. In terms of market structure, the position of the SLPEs is shown in Figure 20.

Figure 20 Market Structure

Competitive	Non- Competitive
• Sikkim Precision Industries Ltd • State Trading Corporation • Government Fruit Preservation Factory • Sikkim Consumers' Co-operative Society • Sikkim State Co-operative Supply and Marketing Federation Ltd • Sikkim Jewels Ltd • Sikkim Hatchery Ltd • Sikkim Poultry Dev. Corp. Ltd • Sikkim Times Corp. Ltd • Sikkim Co-operative Milk Producers Union Ltd • Sikkim Power Dev. Corp.	• Sikkim Industrial and Investment Development Corp. Ltd • Sikkim State Co-operative Bank • State Bank of Sikkim • Tea Board of Sikkim • Sikkim Tourism Development Corp. Ltd • Sikkim Nationalized Transport • Sikkim State Energy and Power Department • Sikkim Scheduled Castes, Tribes and Other Backward Classes Development Corp. Ltd • Khadi and Village Industries Board • Denjong Agricultural Co-Operative Society Ltd • Sikkim Handloom and Handicrafts Dev. Corp. Ltd

(Source Annexure 8.6)

The departmental enterprises viz., Sikkim Energy and Power Department and Sikkim Nationalized Transport topped the list of SLPEs in terms of providing employment among the SLPEs being studied. The casual and muster roll workers far exceeded the number of managerial personnel. The position of the various SLPEs with regard to manpower strength is given in Table 35. The SLPEs did not staff themselves with sufficient managerial manpower. The non- managerial staff was in excess of requirements. The work-charged and muster roll employees exposed the SLPEs to weak manpower planning and management. The value added per employee was insignificant and so was the average turnover per employee.

Table 35 Manpower

Name of the enterprise	Managerial	Non Managerial	Casual	Others	Total
Sikkim Industrial and Investment Development Corporation Ltd	19	16	-	-	34
State Bank of Sikkim	50	221	-	-	271
Sikkim State Co-operative Bank	12	4	-	-	16
Sikkim Jewels	20	105	-	-	125
Sikkim Hatchery	1	2	13	-	15
Sikkim Poultry	1	0	5	-	6
Sikkim Precision Industries	4	50	6	-	60
Sikkim Time Company	22	87	37	-	146
Tea Board of Sikkim	5	444	-	-	449
Govt. Fruit Preservation Factory	4	56	3	-	63
Sikkim Co-operative Milk Producers Union Ltd	7	60	16		83
Sikkim Tourism	4	85	-	-	89
Sikkim Handloom and Handicrafts Development Corp. Ltd	01	12	-		13
Khadi and Village Industries Board	14	69	-	-	83*
State Trading Corp.	11	70	27	-	108
Sikkim Consumer Co-operative Society	2	22	3	-	27
Sikkim State Co-operative Supply and Marketing Federation Ltd	9	23	-	8	40
Denjong Agricultural Co-Operative Society Ltd	2	60	40	-	112
Sikkim Nationalized Transport Corp.	57	767	91	42	824
State Energy and Department of Power	205	3228	-	-	3443
Sikkim Power Dev. Corp.	7	14	-	-	21
SABCCO	4	12	-	-	16
Total	**461**	**5407**	**241**	**50**	**6036**

(Source: Annexure 8.9)

* *This excludes 100 part-time workers*

8.3 Investments and Financial Performance of SLPEs in Sikkim

Table 36 depicts the investments in the SLPEs in Sikkim. The analysis of investments in the SLPEs points to the following:

- The total investments in the SLPEs increased form Rs 663.24 crore in 2001-02 to Rs 726.06 crore in 2003-04
- About 85 per cent of the total investments was made in the utility sector enterprises
- The manufacturing enterprises followed by the financial enterprises come next in the pecking order.
- In terms of investments in the various forms of the SLPE, the departmental enterprises shared about 81 per cent and the government companies had 11 per cent of the total investment. The other forms of the SLPEs had only nine per cent of the total investment.

- The promotional, welfare, and trade and service enterprises carry small investments.
- The enterprises in all the sectors have conveniently ignored the principle of leverage leading to an inadequate debt-equity mix.

Table 36 Investment in SLPEs

(Rs. in crore)

Name of the enterprise	Classification	2001-02	2002-03	2003-04
SIDICO	Financial	19.46	19.48	19.66
State Bank of Sikkim	Financial	4.56	4.98	5.40
Sikkim State Co-operative Bank	Financial	8.50	8.91	9.36
	Total	**32.52**	**33.37**	**34.42**
Sikkim Jewels	Manufacturing	7.10	7.82	7.04
Sikkim Hatchery	Manufacturing	0.46	0.46	0.46
Sikkim Poultry	Manufacturing	0.79	0.79	0.79
Sikkim Precision Industries	Manufacturing	0.00	3.70	**3.70**
SITCO	Manufacturing	11.96	12.03	11.74
Tea Board of Sikkim	Manufacturing	19.52	20.44	22.71
Sikkim Milk Union	Manufacturing	0.10	0.14	0.14
Govt. Fruit Preservation Factory	Manufacturing	0.76	1.07	0.00
	Total	**40.69**	**45.20**	**41.63**
Sikkim Tourism	Promotional	4.79	4.79	6.06
Sikkim Handloom and Handicrafts Dev. Corp	Promotional	0.00	0.00	0.80
Khadi and Village Industries Board	Promotional	10.09	11.24	12.01
	Total	**14.88**	**16.03**	**18.87**
State Trading Corp.	Trade and Service	1.11	1.11	1.11
Sikkim Consumer Co-operative Society	Trade and Service	0.17	0.17	0.17
SIMFED	Trade and Service	1.05	1.01	1.02
Denjong Agricultural Co-Operative Society Ltd	Trade and Service	0.20	0.20	0.20
	Total	**2.53**	**2.49**	**2.50**
Sikkim Nationalized Transport Corp.	Utility	33.08	34.49	34.39
State Energy and Department of Power	Utility	470.92	470.92	514.79
Sikkim Power Dev. Corp.	Utility	53.01	53.01	53.01
	Total	**557.01**	**558.42**	**602.19**
SABCCO	Welfare	15.61	20.10	21.50
	Total	**15.61**	**20.10**	**21.50**
	Grand Total	**663.24**	**676.86**	**726.06**

(Source: Annexure 8.1, 8.2 and 8.3)

Table 37 shows that a large number of enterprises did not have any debt and therefore ended up with nil debt - equity ratio. The presence of low or no debt in some of the SLPEs, especially in the utility and the co-operative sector enterprises, points to the total dependence of these enterprises on the GoS and also lack of sensitization about the corporate financial management and linkages with the financial and capital markets.

Table 37 Debt- Equity Ratio

Name of the enterprise	2001-02	2002-03	2003-04
SIDICO	0.21	0.18	0.15
State Bank of Sikkim	6.86	7.59	8.31
Sikkim State Co-operative Bank	0.00	0.00	0.00
Sikkim Jewels Ltd	0.29	0.31	0.08
Sikkim Hatchery Ltd	0.00	0.00	0.00
Sikkim Poultry Dev. Corp. Ltd	0.00	0.00	0.00
Sikkim Precision Industries	0.00	0.00	0.00
SITCO	0.09	0.07	0.05
Tea Board of Sikkim	0.00	0.00	0.00
Sikkim Milk Union	4.00	1.33	1.33
Govt. Fruit Preservation Factory	0.00	0.00	0.00
Sikkim Tourism Dev. Corp. Ltd	0.00	0.00	0.00
Sikkim Handloom and Handicrafts Dev. Corp. Ltd	0.00	0.00	0.00
Khadi and Village Industries Board	0.00	0.00	0.00
State Trading Corp. Ltd	0.00	0.00	0.00
Sikkim Consumer Co-operative Society	0.00	0.00	0.00
SIMFED	0.19	0.20	0.00
Denjong Agricultural Co-Operative Society Ltd	0.00	0.00	0.00
Sikkim Nationalized Transport Corp.	0.00	0.00	0.00
State Energy and Department of Power	0.00	0.00	0.00
Sikkim Power Dev. Corp.	16.67	16.67	16.67
SABCCO	1.41	1.24	1.25

(Source Computed on the basis of information contained in Annexures 8.1, 8.2, 8.3)

Profit Earning and Profitability

The SLPEs have to discharge both the 'public' and 'enterprise' roles. The 'enterprise' element should overtake the 'public' element with the accumulation of experience. The financial performance of the SLPEs as shown in Annexures 8.1 through 8.3 is summarized as under:

- The total accumulated losses wiped out 16.50 per cent of the total investments in the SLPEs in 2003-04. The provisioning for NPAs (Non-Performing Assets) by State Bank of Sikkim and the accumulated losses incurred by SIDICO were mainly responsible for this phenomenon.
- In 2003-04 the net profit earned by the profit making enterprises was Rs 2.10 crore against the investment of Rs 124.01crore giving a yield of 1.69er cent. The losses incurred by the loss making enterprises were Rs 34.84 crore on an investment of Rs 602.05 crore giving a negative yield of 5.78 per cent. On the whole the SLPEs earned a net loss of Rs 32.74 crore on an investment of 726.06 crore resulting in a negative yield of 4.51 per cent.
- The net worth of the enterprises was about 11 per cent of the money invested in 2003-04.
- The capital employed also suffered substantial erosion and amounted to a paltry 11.78 per cent of the total investment in 2003-04.

The profit earning record of the SLPEs show that the manufacturing, promotional, utility and welfare sector enterprises, on the whole are in the red and the performance of financial enterprises is mixed. The State Bank of Sikkim is deep in the red and in the case of the other financial enterprise the stated profits can not be taken at the face value as they carry huge contingent liabilities, sub-standard assets and doubtful debts. The trade and service enterprises excepting the Denjong Agricultural Co-operative Society managed to keep their head above water all due to protected market conditions. The poor financial health of the SLPEs is indicated by the fact that aggregate net worth of for all enterprises taken together amounted to a mere Rs 63.48 crore in 2003-04 as against the total investment of Rs 726.06 crore.. The financial laxity was rampant as seen by the relationship between the investment and capital employed. The total capital employed was Rs. 85.62 crore in 2003-04 as against the total investment of Rs. 726.06 crore. This is a clear case of heavy capital erosion.

Table 38 reveals net profit / loss to total investment ratio for the SLPEs. It is clear that the SLPEs taken as a whole are in the red during all the three years of the study. However, the percentage of net losses to total investments declined during the period under reference due to reduction in losses incurred by State Bank of Sikkim and State Energy and Department of Power. The benchmark profitability as suggested by the XII Finance Commission varies from two to five per cent on total investment for different categories of the SLPEs indicating the fact that the net profit to total investment ratio need immediate attention and policy palliatives.

Resource Use

The data given in Annexures 8.1, 8.2 and 8.3 shows the resource use scenario in the SLPEs of the State of Sikkim. It is clear that the resource use is very low registering a declining trend in 2003-04. It was 14.51 per cent, 14.54 per cent and 14.51 per cent in 2001-02, 2002-03 and 2003-04, respectively. This is lower than the national average. The SLPEs pose a tremendous challenge for unlocking the hidden value. The manufacturing enterprises are a case in point. Sikkim Jewels Ltd., SITCO and Sikkim Precision Industries Ltd have been hardly using the capacity created and tapping the market for selling their goods. The power sector and transport sector enterprises are also characterized by low resource use.

Table 38 Net Profit/Loss to Total Investments

Name of the enterprise	2001-02	2002-03	2003-04
SIDICO	0.77	12.89	2.34
State Bank of Sikkim	-40.57	-433.13	-17.59
Sikkim State Co-operative Bank	12.82	2.58	7.37
Sikkim Jewels	-0.85	0.64	-5.40
Sikkim Hatchery	0.00	0.00	0.00
Sikkim Poultry	-2.53	-13.92	-10.13
Sikkim Precision Industries	0.00	3.24	1.08

SITCO	-4.26	-22.28	-28.02
Tea Board of Sikkim	0.41	-1.08	0.13
Sikkim Milk Union	-750.00	-507.14	-735.71
Govt. Fruit Preservation Factory	0.00	0.00	0.00
Sikkim Tourism	13.99	-20.04	-10.56
Sikkim Handloom and Handicrafts Dev. Corp	0.00	0.00	0.00
Khadi and Village Board	-2.08	-1.69	0.00
State Trading Corp.	67.57	0.00	59.46
Sikkim Consumer Co-operative Society	5.29	58.82	4.71
SIMFED	30.48	14.85	18.63
Denjong	-210.00	-170.00	-230.00
Sikkim Nationalized Transport Corp.	-11.31	-14.15	-12.21
State Energy and Department of Power	-13.98	-7.93	-4.41
Sikkim Power Dev. Corp.	0.00	0.00	0.00
SABCCO	2.24	1.99	0.60
Total	**-10.55**	**-9.54**	**-4.34**

(Source: Computed from Annexures 8.1, 8.2 and 8.3)

8.4 Characteristics of SLPEs in the State of Sikkim

The characteristics of SLPEs relating to the activities, financial status, physical performance, total employment, social purpose, financial system and management, interface with government, performance improvement plan, SWOT analysis, problems encountered, and strategic initiatives have all been summarized in Annexure 8.6. These are all also analyzed in the earlier sections. Some of the useful points are culled out in the following paragraphs.

- A majority of the enterprises have been incorporated in the company form. All the manufacturing enterprises excepting Sikkim Co-operative Milk Union have been registered as the Government Company. The social purpose of these enterprises (excepting Sikkim Co-operative Milk Union) is very low. They qualify for full privatisation. The Sikkim Power Development Corporation, although an enterprise in the utility category, has also a low social purpose and qualifies for full privatisation. SABCCO and Sikkim Tourism Development Corporation have a high social purpose. In their cases, privatisation could be introduced through Optimum Performance Through Internal Management Action (OPTIMA).
- The utility enterprises are large sized. They operate as departmental enterprises. There is a need to corporatise these enterprises, make them competitive, and commercially and financially viable. Partial / full privitisation could follow thereafter.
- Out of four public corporations, two corporations, viz., State Bank of Sikkim, Khadi and Village Industries Board, and Tea Board of Sikkim have a high public purpose, and State Trading Corporation has a low public purpose. Whereas, the first three need to be retained

in the public sector, the last one needs to be privatized. However, in both the cases, partial/ full privatisation could be considered as per the need of each case.

- In the case of co-operative enterprises, public purpose being high, the retention is the only option presently available with the government. However, in their case also, there is a possibility of merger and OPTIMA
- The size of the SLPEs in the State of Sikkim is small in terms of both the turnover and the volume. This makes them amenable for restructuring and privatisation.
- The financial position of the enterprises is very discouraging as most of the enterprises completely depend for share capital on the government, have not garnered debt, are characterized by receding or negative net worth due to accumulated losses, and are incurring losses. Some of the enterprises have either low or negative working capital.
- The wage costs are very high as the number of non - managerial personnel exceeds the managerial staff by a considerable margin. Overstaffing has taken place through the muster roll, work-charged and casual employment routes. Some enterprises have tried to go in for labour adjustments through VRS but the success has been minimal and a lot more remains to be done.
- The revenues earned / turnover of the enterprises is very low and is about 15 per cent of the total investment. The capacity utilisation in manufacturing enterprises ranges from 10 -30 per cent.
- The enterprises have perennially continued with same activities without any R&D and innovations.
- The financial and management systems such as budgeting, costing, pricing, internal audit, management information system (MIS), project appraisal, recruitment, manpower planning, supply chain management, appointment of professional directors, excessive presence of government directors on the board have encouraged non commercial culture and bureaucratisation. The enterprises are not board-led ones.
- The SWOT analysis points that strengths are far less as compared to weaknesses and so is the case between opportunities and threats.
- Most of the enterprise did not formulate performance improvement plans and are not internally funded. Further, many enterprises lack the government support in that there interaction with government is very low.
- The problems faced by these enterprises are galore ranging from operations related, market mix, location, over aging of plant and machinery to strategic issues such as settlement of debts, diversification, finding new markets, innovating new sources of finance, increase in employee productivity, unwarranted internal competition and neglect of technology, to mention a few.

- The SLPEs have shown a very poor appreciation for strategic initiatives including the rationalization of manpower and modernization of plant and machinery. The issues in organisaitonal, financial, human resource development and industrial relations, operational and technological restructuring have not been attended to by them.

8.5 Restructuring SLPEs in Sikkim: Basic Approach

The SLPEs scenario in the State of Sikkim points to the need of a re-look at the SLPEs portfolio to be retained by the Government and assess the scope for privatization and disinvestment in the case of the enterprises required to be off loaded. The restructuring of SLPEs in Sikkim will involve among other things, organizational restructuring, operational restructuring, human resource management, and decisions regarding strategic re-orientation of enterprises. In ndertaking the restructuring, it is necessary to take into account the rationale, objectives, benefits, criteria and procedures concerning privatisation and disinvestment.

The investments in the SLPEs have become unproductive and cost the GoS Rs 190.52 crore in 2003-04. This is a huge sum. The returns were negative also in the years 2001-02 and 2002-03. The GoS must unlock the value hidden in the SLPEs. The restructuring of loans obtained by SABCCO, Sikkim Power Development Ltd, and Sikkim Time Corporation Ltd would improve the profit and loss accounts and balance sheets of these enterprises and also reduce the risk for the GoS. It is important to note in this context that the SLPEs have been set up as an instrument of public policy by the GoS. Further, Sikkim is relatively a new State in the north-east. Therefore, any move about restructuring / privatisation has to be considered in the backdrop of the fact that in the present phase of economic development of the State, some SLPEs would continue to play an important role. To add, these enterprises are the only source of organized employment in Sikkim outside the government structure. The restructuring plans formulated are based on the financial data pertaining to March 31, 2004.

Table 39 Cost and Returns from Investments in SLPEs

(Rs in crore)

	Particulars	2001-02	2002-03	2003-04
1	Total Investment	663.34	676.86	726.06
2	Opportunity Cost (@ 10 % on Total Investment)	66.33	67.68	72.61
3	Add Net loss	72.75	66.06	32.74
4	Add Subsidies*	0.86	3.81	0.84
5	**Total (2+3+4)**	139.94	137.55	106.19
6	*Less* Dividends	0.14	0	0.01
7	**Gross Direct Cost (5-6)**	139.80	137.55	106.18
8	Add Guarantees	95.89	86.19	84.34
9	**Total Cost (7+8)**	**235.69**	**223.74**	**190.52**

*(*Source : Annexure 8.7)*

8.6 Policy of GoS on Disinvestment/Privatisation

By beading together the various policy pronouncements, it is possible to glean the public policy on the SLPEs in the State of Sikkim. The public sector has played a laudable role in creating manufacturing presence in the state when none existed. However, the significantly changed economic environment that now prevails makes it necessary for both the public and the private sectors to become competitive. Learning from the State experience, especially over the last decade, it is evident that disinvestment in public sector enterprises is no longer a matter of choice, but an imperative. The prolonged fiscal hemorrhage from the majority of these enterprises cannot be sustained any longer. The disinvestment would enable a more productive use of resources of the state.

The public sector has played a vital role in the development of the economy of the State of Sikkim. However, the nature of this role cannot remain frozen to what it was conceived years ago - a time when the technological landscape, and the domestic and national economic environment were so very different. The private sector in the State has come of age, contributing substantially to the development programmes launched by the State. Therefore, both the public and the private sectors need to be viewed as mutually complementary parts of the industrial sector. The private sector must assume greater public responsibilities just as the public sector needs to focus more on achieving results in a highly competitive market. Most of the SLPEs have accumulated huge losses. With public finances under intense pressure, the State Government is just not able to sustain them much longer. Accordingly, the State Government is compelled to embark on the programme of disinvestment.

There are many SLPEs, which are sick and not amenable for revival. The only remaining option is to close down these undertakings after providing an acceptable safety net for the employees and workers. Consistent with the endeavor of the Central Government, downsizing of excess manpower through suitable scheme like VRS (Voluntary Retirement Scheme) would be implemented in the current Five Year Plan. The entire proceeds from disinvestment/ privatisation would be deployed in social sectors and retirement of public debt. The public sector has overgrown itself and their shortcomings have manifested in the shape of low capacity utilization and low efficiency due to over manning and poor work ethics, over capitalisation due to substantial time and cost overruns, inability to innovate, take quick and timely decisions, large interference in decision making process etc.

By and large, the GoS proposes to privatise/ disinvest the SLPEs which are not strategic in nature. It is expected that such disengagement would lead to the development of private sector and freeing resources which are unwarrantedly locked up in the public sector. The GoS proposes to carryout the entire restructuring exercise on case-to-case basis in a transparent manner without hurting the interest of workers. The SLPEs are encouraged to formulate their VR schemes to minimize the social consequences of labour adjustments. The GoS has also formulated some criteria for disinvestment to avoid subjectivity in the selection of candidates for disinvestment and pre-empt formation of monopolies. However, these criteria need an analytical formulation to identify the candidates for privatisation, disinvestment and retention. This alone could indicate as to what should be the SLPEs portfolio for retention by the GoS and as to which modality could be followed for privatisation / disinvestment of the left over SLPEs. This forms the subject matter of the next section. It is appropriate to mention here that such an analytical formulation would stand out as a superior proposition to the criteria indicated by the GoS in that besides considering profitability of the SLPEs, it gives due credit to their public purpose, resource mobilisation and market structure, and also outlines modalities of restructuring and privatisation.

BOX VII
Policy of Government of Sikkim on Disinvestment and Privatization

Rationale

- The GoS accepts, by and large, the need for restructuring SLPEs in the era of economic liberalization paving the growth of private sector.
- The restructuring of the SLPEs would be decided on a case to case basis
- The manpower in the SLPEs would be right sized through VRS.
- The social consequences of restructuring the SLPEs would be given due consideration in deciding about the portfolio of their retention with the GoS.

Objectives

- Releasing large amount of public resources locked up in non-productive SLPEs, for redeployment in areas that are much higher on the social priority, such as, basic health, family welfare, primary education and social and essential infrastructure.
- Stemming further outflow of scarce public resources for sustaining the unviable SLPEs.
- Reducing the public debt that is threatening to assume unmanageable proportions.
- Transferring the commercial risk, to which the taxpayers' money locked up in the public sector is exposed, to the private sector wherever the private sector is willing and able to step in. The money that is deployed in the SLPEs is really the public money and is exposed to an entirely avoidable and needless risk, in most cases.
- Releasing other tangible and intangible resources, such as, large manpower currently locked up in managing the SLPEs, and their time and energy, for redeployment in high priority social sectors that are short of such resources.

Incidental Benefits

- Disinvestments would expose the privatised companies to market discipline, thereby forcing them to become more efficient and survive or cease on their own financial and economic strength. They would be able to respond to the market forces much faster and cater to their business needs in a more professional manner. It would also facilitate in freeing such companies from the GoS control and introduce corporate governance in the privatised companies.
- Disinvestments should result in wider distribution of wealth through offering of shares of privatised companies to small investors.
- The restructuring would provide access to the existing SLPEs to appropriate private investment and thereby increase economic activity and have an overall beneficial effect on the economy, employment and tax revenues in the medium to long term.
- The disinvestment would result in optimal use of resources and assets in the SLPEs by unleashing their inherent productive potential

Preconditions and Criteria

The GoS proposes to ensure that disinvestment does not result in unwarranted alienation of state assets. Further, it does not propose to take any action that may result in formation of private monopolies. The criteria for disinvestment/ privatisation are as follows:

- Government would disinvest/privatise public sector undertakings, which are making losses for the last three years.

- Government would disinvest/privatise public sector undertakings, which have not paid dividends to the Government of Sikkim for the last three years.
- Government would disinvest/Privatize public sector undertakings from which the return on investments is less than the prime-lending rate of the Nationalized Banks.

Procedure

- Proposals for disinvestment/privatization in any SLPE, based on the recommendations of the Administrative Department would be placed for consideration of the GoS through the Minister in charge of the concerned SLPE.
- The GoS clears the disinvestment proposal, the valuation of the assets of the SLPE would be done by the concerned technical departments of GoS Sikkim. The value of the current assets so calculated would serve as the floor/ reserve price for the purpose of bidding.
- Bidders would be invited through advertisement in newspapers/website to submit their Expression of Interest (EOI) in the first stage. After receipt of the Expression of Interest (EOI), in pursuance of Advertisement in newspapers / website, a list of bidders would be prepared.
- The bidders would be undertaking due diligence of the SLPE and hold discussions with the Administrative Department/ the representatives of the SLPE for any clarifications.
- The bidders would be asked to submit their financial offers. Based on the highest offer received from the prospective bidders, the Sale Agreement/Lease Agreement would be finalised by the Administrative Department. After getting the Sale Agreement/Lease Agreement vetted by the Department of Law, the Sale Agreement would be approved by the Government.
- After the transaction is completed, copies of all papers and documents relating to the transaction would be sent to Finance Department of the State for reference and record.

8.7 Scope for Restructuring SLPEs

The purpose of this section is to discuss the models for identifying the candidates for disinvestment/ privatisation and list out the SLPEs for disinvestment / privatisation and retention. We present below two conceptual models contained in Figures 21 and 22 that could suit our requirement of identifying out the various SLPEs in the State of Sikkim for the purposes of disinvestment, privatisation and retention. The first model is known as the Three Dimensional Matrix and the second one is know as the Two –by - Two Matrix.

The Three Dimensional Matrix based on factors such as (1) public purpose, (2) mobilization of resources from external sources, and (3) profitability could be applied to rank public enterprises as high or low. The enterprises being high on all three dimensions merit retention in the public enterprise portfolio. On the other hand, the enterprises being low on all three dimensions need to be transferred to the private sector. The enterprises falling in intermediate categories need to undergo restructuring.

The second model is based on financial performance and market structure. The SLPEs may have a positive or negative financial performance. In terms of market structure, they may constitute a single source of supply or constitute to multiple sources of supply. The enterprises registering good financial performance and having multiple sources of supply emerge as clear candidates for privatization. On the contrary, the enterprises characterized with good financial performance but belonging to single source of supply need to be retained in the public enterprise portfolio. The SLPEs in the other categories need to be restructured.

Figure 21 Three Dimensional Matrix

Factors	High	Low
1. Public Purpose	H1	L1
2. Resource Mobilisation from Financial Institutions	H2	L2
3. Profitability	H3	H3

Figure 22 Two-by-Two Matrix

<table>
<tr><th></th><th colspan="3">Financial Performance</th></tr>
<tr><td rowspan="5">Market Structure</td><td>Good</td><td></td><td>Bad</td></tr>
<tr><td>Single Source</td><td>A</td><td>B</td></tr>
<tr><td></td><td>Non-Competitive Successful PEs</td><td>Non-Competitive Unsuccessful PEs</td></tr>
<tr><td>Multiple Source</td><td>C</td><td>D</td></tr>
<tr><td></td><td>Competitive Successful PEs</td><td>Competitive Unsuccessful</td></tr>
</table>

8.8 Identifying SLPEs for Restructuring

The data for the year 2003-04 pertaining to the SLPEs have been considered for the application of the three dimensional matrix and the two – by – two matrix. Public purpose is considered high if the enterprise is involved in core activities which can not be totally executed by the private sector. Resource mobilisation is considered high if 20 per cent or more of the resources have been raised externally. Profitability is considered high if the net profits earned are more than ten per cent of the investment.

As per the Three Dimensional Matrix, there is no SLPE in Sikkim qualifying for straight retention. However, there are nine SLPEs requiring privatisation / closure. These enterprises include Sikkim Jewels Ltd, Sikkim Hatchery Ltd, Sikkim Poultry Dev. Corp. Ltd, Sikkim Precision Dev. Corp. Ltd, Sikkim Time Corp., Sikkim Trading Corp., Sikkim State Consumer Co-operative Society, Government Fruit Preservation Factory, and Sikkim Power Dev. Corp. Ltd. Though Sikkim Consumer Co-operative Society and State Trading Corp. have been profit making ventures, their privatisation / winding up has been suggested in view of the duplication of activities with SIMFED and the Denjong Agricultural Co-operative Society as discussed later. The rest of the enterprise (namely, SIDICO, State Bank of Sikkim, Sikkim State Consumer Co-operative Bank, Tea Board of Sikkim, Sikkim Milk Producers Union, Sikkim Tourism Dev. Corp. Ltd, Sikkim Handloom and Handicrafts Dev. Corp. Ltd, Khadi and Village Industries Board, SIMFED, Denjong Agricultural Society, Sikkim Nationalized Transport, Sikkim Energy and Department of Power and SABCCO) need to be restructured as per the suitably designed modalities.

Table 40 Three Dimensional Matrix and SLPEs

Name of the enterprise	Public Purpose	Resource Mobilization*	Profitability**
SIDICO	High	High	Low
State Bank of Sikkim	High	High	Low
Sikkim State Co-operative Bank	High	Low	Low
Sikkim Jewels Ltd	Low	Low	Low
Sikkim Hatchery Ltd	Low	Low	Low
Sikkim Poultry	Low	Low	Low
Sikkim Precision Industries	Low	Low	Low
SITCO	Low	Low	Low
Tea Board of Sikkim	High	Low	Low
Sikkim Milk Union	High	High	Low
Govt. Fruit Preservation Factory	Low	Low	Low
Sikkim Tourism	High	Low	Low
Sikkim Handicrafts and Handlooms Development Corporation	High	Low	Low
Khadi and Village Industries Board	High	Low	Low
State Trading Corp.	Low	Low	High
Sikkim Consumer Co-operative society	Low	Low	Low
SIMFED	High	Low	High
Denjong Agricultural Co-Operative Society Ltd	High	Low	High
Sikkim National Transport Corp.	High	Low	Low
State Energy and Department of Power	High	Low	Low
Sikkim Power Dev. Corp.	Low	Low	Low
SABCCO	High	High	Low

** The resource mobilization scenario is given in Annexure 8.4*
*** The profit performance is given in Annexure 8.5*

Figure 23 shows that three enterprise viz., Sikkim Precision Industries Ltd, State Trading Corporation, Government Fruit Preservation Factory qualify for privatisation as they are profitable and are also competitive. The figure shows that five enterprises, viz Sikkim Industrial and Investment Development Corporation Ltd, Sikkim State Co-operative Bank, Tea Board of Sikkim, Sikkim Consumers' Co-operative Society, and Sikkim State Co-operative Supply and Marketing Federation Ltd are profitable but non- competitive. These enterprises need to be made competitive and in course of time required to be shifted to the first Quadrant making them amenable, if necessary, for privatisation. There is a need to introduce policy and managerial reforms to shift these enterprises to the first quadrant. Quadrant three shows viz., Sikkim Jewels Ltd, Sikkim Hatchery Ltd, Sikkim Poultry Dev. Corp. Ltd, Sikkim Times Corp. Ltd, Sikkim Co-operative Milk Producers Union Ltd and Sikkim Power Dev. Corp.. There is a need to introduce policy and managerial reforms to shift these enterprises to the first Quadrant. Quadrant four shows that eight enterprises viz., State Bank of Sikkim, Sikkim Tourism Development Corporation Ltd, Sikkim Nationalized Transport, Sikkim State Energy and Power Department, Sikkim Handloom and

Handicrafts Dev. Corp. Ltd, Khadi and Village Industries Board, Denjong Agricultural Co-Operative Society Ltd, and Sikkim Scheduled Castes, Tribes and Other Backward Classes Development Corporation Ltd are loss making and non – competitive. There is a need to make these enterprises competitive and then introduce managerial reforms in order to shift them from Quadrant four to Quadrant three and eventually to Quadrant one.

The application of the two models provides the same choice for the portfolio for retention of the SLPEs in the State of Sikkim which facilitates our task of outlining the modalities for restructuring and privatisation.

The application of the restructuring models clearly point out a vast scope for policy and managerial reforms for the SLPEs that are required to be retained in the medium and long term by the GoS and privatisation/ disinvestment of un-strategic SLPEs. The modalities with regard to the privatisation of these enterprise and the restructuring packages for privatisation/ disinvestment and managerial reforms are discussed through sections 8.9 to 8.11

Figure 23 Two –by – Two Matrix and SLPEs

		Competitive	Non- Competitive
Financial Performance	Profit Making	1. Sikkim Precision Industries Ltd 2. State Trading Corporation 3. Government Fruit Preservation Factory **First Quadrant**	1. Sikkim Industrial and Investment Development Corporation Ltd 2. Sikkim State Co-operative Bank 3. Tea Board of Sikkim 4. Sikkim Consumers' Co-operative Society 5. Sikkim State Co-operative Supply and Marketing Federation Ltd **Second Quadrant**
	Loss making	1. Sikkim Jewels Ltd 2. Sikkim Hatchery Ltd 3. Sikkim Poultry Dev. Corp. Ltd 4. Sikkim Times Corp. Ltd 5. Sikkim Co-operative Milk Producers Union Ltd 6. Sikkim Power Dev. Corp. **Three Quadrant**	1. State Bank of Sikkim 2. Sikkim Tourism Development Corporation Ltd 3. Sikkim Nationalized Transport 4. Sikkim State Energy and Power Department 5. Sikkim Handloom and Handicrafts Dev. Corp. Ltd 6. Khadi and Village Industries Board 7. Denjong Agricultural Co-Operative Society Ltd 8. Sikkim Scheduled Castes, Tribes and Other Backward Classes Development Corporation Ltd **Fourth Quadrant**

8.9 Modalities of Restructuring and Privatisation of SLPEs

It is proposed here to discuss the modalities of restructuring and privatisation of SLPEs in the State of Sikkim. We have ranked earlier the SLPEs as high or low on the various parameters of the three dimensional matrix. By placing them on the three dimensional matrix, we obtained 2x2x2 i.e. 8 categories containing 22 enterprises. No enterprise was high on all the parameters. Eight enterprises were low on all the parameters. 14 enterprises belonged to the other six categories. State Trading Corporation has also been identified for privatisation / closure due to its presence in non-strategic area of operation. Table 41 provides the details in terms three dimensional matrix of category-wise listing of the SLPEs in the State of Sikkim.

The modalities for restructuring category-wise are discussed below:

Category 1:- High public purpose, resource mobilization and profitability: The SLPEs in this category should be continued since they are good performers. They should be freed from government control on operational issue matters. The Memorandum of Understanding (MoU) should specify support to be extended and financial returns expected by the Government. The Governing Boards of these enterprises should not have more than one government nominees. All measures under cold privatisation could be adopted for enterprises in this category. The enterprises in this category should be provided autonomy and become financially viable. The term cold privatisation refers to optimum performance through internal management action which calls for introduction and strengthening of financial and management systems such as budgeting, costing, pricing, internal audit, manpower planning, recruitment, performance appraisal, training and management development, supply chain management, technological up-gradation, computerisation and restructuring of varied kinds, viz., organisational, financial, human resources, operations and technological restructuring. No SLPE has been ranked as high - high – high.

Category 2:- Low public performance, resource mobilization and profitability: The enterprises in this category are a fit case for liquidation or total divesture, if possible. This would lead to avoidance of further investment thereby reducing the burden on the State exchequer. Sikkim Jewels Ltd, Sikkim Hatchery Ltd, Sikkim Poultry Ltd, Sikkim Precision Industries, SITCO, Govt. Fruit Preservation Factory, Sikkim Consumer Co-operative Society and Sikkim Power Dev. Corp. come in this category of the three dimensional matrix.

Category 3:- High public purpose, low resource mobilization and low profitability: These enterprises should be continued in the state sector. The accent on resource mobilization and profitability should be increased and then partial / cold privatization could be attempted. Sikkim State Co-operative Bank, Tea Board of Sikkim, Sikkim Tourism Dev. Corp. Ltd, Sikkim Handicrafts and Handlooms Development Corp., Khadi and Village Industries Board, Sikkim National Transport Corp., State Energy and Department of Power, form a part of this category.

Table 41 Categorization of SLPEs as per Three Dimensional Matrix

Category Name	Name of the enterprise
Category 1 : Public purpose high, resource mobilization high, profitability high	#
Category 2 : Public purpose low, resource mobilization low, profitability low	• Sikkim Jewels Ltd • Sikkim Hatchery Ltd • Sikkim Poultry • Sikkim Precision Industries • SITCO • Govt. Fruit Preservation Factory • Sikkim Consumer Co-operative society • Sikkim Power Dev. Corp.
Category 3: Public purpose high, resource mobilization low, and profitability low	• Sikkim State Co-operative Bank • Tea Board of Sikkim • Sikkim Tourism • Sikkim Handicrafts and Handlooms Development Corporation • Khadi and Village Industries Board • Sikkim National Transport Corp. • State Energy and Department of Power
Category 4: Public purpose high, resource mobilization low, profitability high:	• SIMFED • Denjong Agricultural Co-Operative Society Ltd
Category 5: Public purpose high, resource mobilization high, profitability low	• SIDICO • State Bank of Sikkim • Sikkim Milk Union • SABCCO
Category 6: Public purpose low, resource mobilization high, profitability low	#
Category 7: Public purpose low, resource mobilization low, profitability high	• State Trading Corp.
Category 8: Public purpose low, resource mobilization high, profitability high	#

 # No enterprise classified in this category

Category 4:- Public purpose high, resource mobilization low, profitability high: The enterprises in this category could be continued in the State sector. The accent should be on improving the resource mobilization increased borrowings on commercial terms. The profitability improvement measures could also be introduced to improve the market standing of the enterprises. The enterprises in this category then be partially privatized. SIMFED and Denjong Agricultural Co-Operative Society Ltd form a part of this category as enterprises.

Category 5:- Public purpose high, resource mobilization high, profitability low: While enterprises in this category could be continued in the State sector, there should be total reorganization of internal management and profitability elements concerning these enterprises. SIDICO, State Bank of Sikkim, SABCCO and Sikkim Milk Union form a part of this category of enterprises.

Category 6:- Public purpose low, resource mobilization high, profitability low: Such cases should go in for disinvestment. Total divestiture could also be attempted. Although, no enterprise falls in this category, any enterprise established in future, qualifying for this category, should be taken up for disinvestment or total divestiture.

Category 7:- Public purpose low, resource mobilization low, profitability high: In such cases the government fund could be withdrawn by borrowing more from the market and institutions in view of the good profitability. The enterprises in this category could be considered initially for partial divestiture leading to full divestiture in the final course. State Trading Corporation is the cases in point concerning this category.

Category 8:- Public purpose low, resource mobilization high, and profitability high: These form appropriate cases for total disinvestment resulting in capital accretions for the State government. No SLPE qualifies for inclusion in this category.

The anticipated benefits of the modalities suggested are given in Table 42

Table 42 Anticipated Benefits of Modalities

Categorization of SLPEs			Names of SLPES and No. of SLPEs	Suggested Action	Anticipated Results
Public Purpose	Resource mobilization	Profit Ability			
H1	H2	H3	#	Continue in the state sector with greater autonomy	Better service to consumers
L1	L2	L3	• Sikkim Jewels Ltd. • Sikkim Hatchery Ltd • Sikkim Poultry Ltd • Sikkim Precisions Industries Ltd • SITCO • Govt. Fruit Preservation Factory • Sikkim Consumer Co-operative Society and • Sikkim Power Development Corp. Ltd	Closure or Liquidation or total divestiture	Saving of Govt. Resources
H2	L2	L3	• Sikkim State Co-operative Bank • Tea Board of Sikkim • Sikkim Tourism Dev. Corp. Ltd • Sikkim Handicrafts and Handloom Dev. Corp. Ltd • Khadi and Village Industries Board • Sikkim National Transport and • State Energy and Department of Power	Continue in the state sector with increased accent on resource mobilisation and profitability	Improved fulfillment of public purpose
H1	L2	H3	• SIMFED • Denjong Agricultural Co-operative Society Ltd	Increased accent on the resource mobilisation / partial disinvestment	Better Revenues or reduced budget support
H1	H2	L3	• SIDICO • State Bank of Sikkim	Disinvest	Additional resource to

			• Sikkim Milk Producers Union • SABCCO		Govt.
L1	H2	L3	#	Introduce financial adjustments and then of in for disinvestment	Long term Improvement in service to consumers
L1	L2	H3	• State Trading Corp. Ltd	Introduce financial adjustments and then go in for disinvestment	Long term Investment in service to consumers
L1	H2	H3	#	Disinvest	Reduced Govt. support

#No enterprise classified in this category

8.10 Privatisation Method

An enterprise could be privatised with or without divestiture. The divestiture could be full or partial. The privatisation without divestiture could be positive or negative. The choice of methods would be determined by the characteristics possessed by each enterprise in terms of being strategic or non-strategic in nature. Both the strategic and non - strategic enterprises creating fiscal pressures by continued loss making need to be removed from the portfolio for retention of the SLPEs. However, between the strategic and non – strategic enterprises, it is easier to privatise the non - strategic enterprises.

8.11 Requirements for Restructuring

In order to affect restructuring for privatisation, disinvestment and retention, some legal, accounting and financial requirements need to be fulfilled besides pledging the political commitment. The legal requirements include the settlement of claims of employees, fulfillment of the provisions of the companies act and corporatisation of the departmental enterprises. The accounting requirements comprise the updation of accounts, assessment of contingent liabilities and settlement of claims. The financial requirements include the changes in the debt - equity ratio, broadening of capital structure, introduction of financial systems and valuation of the enterprise. The socio- political requirements include the creation of pro-restructuring / privatisation climate, transparency in restructuring / privatisation, setting up independent machinery for the purpose and strong political commitment ensuring the successful functioning of the post-privatised enterprises. The setting up of regulatory bodies, wherever required, is also necessary for the success.

8.12 Restructuring Plan

In this section, an attempt has been made to provide the macro and the micro restructuring plans related to the SLPEs.

Restructuring: Broad Categorization of SLPEs

There is a need to formulate some broad principles for restructuring which could be pursued by the GoS to tackle issues relating to the SLPEs. These broad principles could be formulated on the basis of an intensive study of the functioning and performance of these enterprises.

A study of the objectives and the profile of these enterprises very clearly reveal the duplication of activities in the case of Sikkim Consumer Co-operative Society, the Denjong Agricultural Co-operative Society, Sikkim State Co-operative Supply and Marketing Federation and State Trading Corporation. All these enterprises are engaged in the activities of procurement of goods and supply of services to the government departments. These enterprises operate on a margin which provides them a spread adequate enough to cover the costs over a period of time. These enterprises solely depend on procurements and have not been developing new business. The procurement costs of these enterprises are increasing. On the part of these enterprises, the problem of delayed payment or non-payment from the government departments is becoming more and more acute. Further, the user enterprises and the government departments have been complaining about the delays in supply and also excessive costs. *It is suggested that State Trading Corp. Ltd and Sikkim Consumer Co-operative Society be privatised / wound up as they are involved in non- core business activity. The State should not set up any enterprise in future intended to take up a non- core activity. A non-core activity is an activity that serves low social purpose which can be taken up by the private sector on the grounds of its presence and suitability.*

There are some enterprises serving high social purpose but involved in the conduct of partly non-core activities. These enterprises comprise the Denjong Agricultural Co-operative Society, Sikkim State Co-operative Supply and Marketing Federation and Sikkim Handloom and Handicrafts Dev. Corp. Ltd. The Denjong Agricultural Co-operative Society and Sikkim State Co-operative Supply and Marketing Federation work under the same government department, serve the same clientele and duplicate some activities. The Denjong Agricultural Co-operative Society and Sikkim State Co-operative Supply and Marketing Federation need to be merged to avoid the duplication. The merged enterprise should refrain from undertaking the procurement business and concentrate on the core activity of serving its shareholders. The Sikkim Handloom and Handicraft Dev. Corp. Ltd should also concentrate on promotional activities and reduce its direct involvement in sale or manufacturing of handloom and handicrafts items.

All the manufacturing enterprises (excepting Sikkim Co-operative Milk Producers Union and Tea Board of Sikkim) have been found low on public purpose, resource mobilisation and profitability. These consist of Sikkim Jewels Ltd, Sikkim Hatchery Ltd, Sikkim Poultry Dev. Corp. Ltd, Sikkim Precision Industries, Govt. Fruit Preservation Factory and Sikkim Time Corporation. Sikkim Power Dev. Corp., a utility sector enterprise, has also been found low on public purpose, resource mobilisation and profitability. These enterprises are defunct for several years. These enterprises operate in a highly competitive market. The private sector is emerging as a strong player in the areas in which these enterprises operate. Not only that these enterprises have lost their market penetration but they have also lost their marketing muscle in terms of advertising and publicity. There is a need to privatise / wind up all these enterprises. The GoS should weigh the objectives of setting up a proposed SLPE in terms of these indicators and if the answer is not in affirmative, the GoS should not set up such an enterprise in the state sector.

The utility sector enterprises viz., Sikkim Nationalized Transport and Sikkim Energy and Department of Power form the lifeline of the State and need therefore to be retained in the public sector. However, their corporatisation is necessary. Once they are corporatised, OPTIMA could be introduced in these enterprises.

The welfare and promotional enterprises have to be continued in the state sector as they deal with the up-liftment of the down trodden classes of society and development of certain economic activity. It is in this backdrop that SABCCO, Khadi and Village Industries Board and Sikkim Tourism Dev. Corp. could be retained in the portfolio of public sector by the GoS.

The financial enterprises such as SIDICO, State Bank of Sikkim and Sikkim State Co-operative Bank provide financial input for the economic development They have high social purpose. However, their resource mobilisation and profitability are low. There internal management is very poor. They suffer from asset –liability mismatch. They have also watered assets. All this suggests that while they could continue in the public sector, they need to vigorously pursue OPTIMA and also enhance the size and volume of their operations.

To summaries, in the light of the suggestions with regard to the restructuring of the SLPEs their proposed status would be as followed

Table 43 Suggested Status of SLPEs

Name of the enterprises	To be Retained	To be Merged	To be Privatised/ wound up
Sikkim Industrial and Investment Development Corporation Ltd	*		
State Bank of Sikkim	*		
Sikkim State Co-operative Bank	*		
Sikkim Jewels			*
Sikkim Hatchery			*
Sikkim Poultry			*
Sikkim Precision Industries			*
Sikkim Time Company			*
Tea Board of Sikkim	*		
Govt. Fruit Preservation Factory			*
Sikkim Co-operative Milk	*		

Name of the enterprises	To be Retained	To be Merged	To be Privatised/ wound up
Producers Union Ltd			
Sikkim Tourism	*		
Sikkim Handloom and Handicrafts Development Corp. Ltd	*		
Khadi and Village Industries Board	*		
State Trading Corp.			*
Sikkim Consumer Co-operative Society			*
Sikkim State Co-operative Supply and Marketing Federation Ltd		*	
Denjong Agricultural Co-Operative Society Ltd		*	
Sikkim Nationalized Transport Corp.	*		
State Energy and Department of Power	*		
Sikkim Power Dev. Corp.			*
SABCCO	*		
Total	11	2	9

Restructuring: Management and Co-ordination at Government Level

The SLPEs in Sikkim are small sized entities in terms of investment, assets and turnover, innovations. They are loss making. The financial and management systems are conspicuous by their absences in these enterprises. The government control and direction relating to SLPEs in Sikkim is lacking in several respects. Although an official of the level of the Director in the Finance Department has been made responsible for coordinating the enterprise-government interface, he is saddled with several responsibilities and finds no time to attend to the issues relating to the SLPEs. In case finance department has surplus officials (or it could seek the services of an official from other departments who have surplus officials), *it is suggested to designate one such official as the Director (SLPEs) charged with the responsibility of inter-departmental coordination, preparation of an annual survey on the SLPEs, formulation of management development and training plans, clearing the arrears of annual accounts and reports in the SLPEs by extending support in terms of accounting personnel and providing guidelines on the wage and performance evaluation matters. Such an official should also have some exposure on public enterprise reforms carried out in some countries and states in India such as Andhra Pradesh, Karnataka, Orissa and West Bengal.*

The Director (SLPEs) should immediately look into the problems of manpower planning, wage policies, internal audit and control systems in the SLPEs. Almost all the enterprises do not have any sensitization about management development and training in that generally employees are not exposed to training and management development, and no in-house training programmes are organized by the SLPEs. The CEOs of SLPEs hardly interact with policy makers. At the most, some enterprises interact twice or thrice with the policy makers. Table 44 reveals the quality of interaction in the SLPEs.

Table 44 Quality of Interface with the GoS

Name of the SLPE	Quality of Interface
SIDICO	**Moderate**
State Bank of Sikkim	**High**
Sikkim State Co-operative Bank	**Moderate**
Sikkim Jewels	**Low**
Sikkim Hatchery	**Very Low**
Sikkim Poultry	**Very Low**
Sikkim Precision Industries	**Very Low**
SITCO	**Very Low**
Tea Board of Sikkim	**Very Low**
Sikkim Milk Union	**Moderate**
Govt. Fruit Preservation Factory	**Low**
Sikkim Tourism	**Very High**
Sikkim Handloom and Handicrafts Dev. Corp. Ltd	**Moderate**
Khadi and Village Board	**Low**
State Trading Corp.	**Low**
Sikkim Consumer Co-operative Society	**Moderate**
SIMFED	**Low**
Denjong	**Low**
Sikkim National Transport Corp.	**Moderate**
State Energy and Department of Power	**Very High**
Sikkim Power Dev. Corp.	**Low**
SABCCO	**Moderate**

H – High , M – Moderate and L – Low
(Source : Annexure 8.6)

The Table 44 shows that 12 enterprises had low or very low interface with the GoS. Only three enterprises had high interface. Seven enterprises had moderate interface. The lack of interface obstructed quick disposal of files, resulted in delays in sorting out problematic issues and did not nurture the requisite trust between the enterprises and the GoS.

Restructuring: Improving Accounts

The annual accounts are in arrears in a number of cases and the quality of disclosure is very poor. The absence of professionals at the middle level has hit hard the functioning of these enterprises. The Director (SLPEs) could hire the services of charted accountants, cost accountants, company secretaries and lawyers to institute effective accounting systems in the SLPEs and clear the arrears of accounts. The project evaluation and project management skills are also lacking in the SLPEs.

The Director (SLPEs), could organize these services and extend them to these enterprises. It is worth mentioning that some enterprises have undertaken large investments in plant and machinery to manufacture new products without proper project evaluation and effective implementation. Such projects have vitiated the entire project economics and pushed them into red. The Director (SLPEs) should also look into the legal framework governing the SLPEs. For instance, the laws governing the SLPEs should be integrated with the laws of the main land. In this connection, it is appropriate to mention that the Registration of Companies Act of Sikkim and the Income Tax Act of Sikkim should be immediately replaced by the Indian Companies Act and the Indian Income Tax Act. This, among other things, will facilitate better corporate governance and access to export incentives to the SLPEs in Sikkim. *It is suggested that the Director (SLPEs) may formulate an agenda for action for effective exercise of the government control, on the one hand, and provide strategic assistance to the SLPEs, on the other. He should refrain from becoming the fifth wheel in the coach.*

Restructuring: Board Composition

The successful functioning of an enterprise depends on the composition of its board and the autonomy provided to it by the government. It has been found that most of the boards of the SLPEs are packed with the government nominees and that the board decisions get referred finally to the government Table 45 shows the compositions of the boards of the SLPEs. *It is suggested that the board composition should be balanced with the representation of professional directors, user interests, employee representatives, and the government nominees. The strength of the board should be between seven and twelve depending on the size of the organisations. The government nominees should not exceed a number of more than two at the maximum. The position of managing director and chairman could be combined to cut the red tape, quicken the decision making and curb infructuous expenses. It has been observed that the separation of the post of chairman – cum-managing director has resulted in wasteful expenditure and unhealthy organisational culture.*

The interface problem as well as the absence of a comprehensive frame-work for performance evaluation has affected the functioning of the SLPEs adversely. An appropriate measure of reform should be introduced to remedy this problem. *The initiation of the Memorandum of Understanding (MoU) system is suggested to strengthen the government – SLPEs interface and institute a comprehensive performance evaluation framework.*

Restructuring: Optimum Performance through Internal Management Action (OPTIMA)

The restructuring of the SLPEs would require internal reforms paving the way for OPTIMA. This would require resources for extending voluntary retirement for surplus personnel, instituting management systems (eg., costing, budgeting, pricing, auditing, MIS, manpower planning and recruitment, training and management development, and performance evaluation). The renovation of obsolete machinery is necessary. The computerisation and network support is also required in this context. The enterprises that have been identified in this category comprise SIDICO, State Bank of Sikkim, Sikkim State Co-operative Bank, Sikkim Tourism, Khadi and Village Industries Board, Sikkim National Transport and State Energy and Department of Power and Tea Board of Sikkim. *It is suggested that the GoS may provide a one-time restructuring grant to the enterprises which would continue to be in the state portfolio in the medium term(to be divested at appropriate time after readying them for the purpose) or to be retained in the long run. This grant could be disbursed over a period of three years in a ratio of 34:33:33 depending on the urgency, absorption capacity of the enterprise and the availability of the resources with the government*

Table 45 Composition of Boards of the SLPEs in Sikkim

Name of the enterprise	Govt. Nominees (including nominees of financial institutions)	Functional Director	Independent Directors (Professionals)	Worker Nominee	Share holders	Other	Total
SIDICO	7						7
State Bank of Sikkim	6						6
Sikkim State Co-operative Bank	6						6
Sikkim Jewels	6						6
Sikkim Poultry	1		1			6	8
SITCO	5	1					6
Tea Board of Sikkim							
Sikkim Milk Producers Union	5	2		8			15
Govt. Fruit Preservation Factory							
Sikkim Tourism	8			2			10
Sikkim Handloom and Handicrafts Dev. Corp. Ltd	1						8
Khadi and Village Board	11						11
State Trading Corp.	6						6
Sikkim Consumer Co-operative Soceity	5				4		9
SIMFED	5	4	1				10
Denjong Agricultural Co-operative Society	5		4				9
Sikkim Nationalized Transport Corp.				Departmental Ent.			
Energy and Dept. of Power				Departmental Ent.			
Power Dev. Corp.	6		1				7

(Source: See Annexure 8.9)

Restructuring: Corporatization

The form of organization plays a significant role in the efficient conduct of a business enterprise. Generally, the government company or the public corporation form is preferred to set up and run the state enterprises. On the contrary, the GoS manages its transport and power sector enterprises in the departmental form. This has affected the performance of these enterprises adversely and deprived them of the enterprise culture. The enterprises in the departmental form do not benefit from the principles of financial management and are not able to interface well with market. As a result, both the transport and power sector enterprises have become a serious drag on the GoS in terms of both the losses making and substantial investments. The departmental enterprises have not shown any will to grow and are found lacking on innovativeness. Although Sikkim is different from many other states in terms of topography, the working of the power sector and transport sector enterprises has been found wanting as compared to their counterparts in the other states of the north-east. It is worth mentioning here that instead of putting in place proper mechanisms to correct this situation, the GoS has taken over the control of some government companies only to vest such control in some government departments. The case of Government Fruit Preservation Factory, Tea Board of Sikkim, Sikkim Poultry Dev. Corp. Ltd, and Sikkim Hatchery Ltd could be cited in this context. *It is suggested that the government may corporatise the departmental enterprises (viz., Sikkim Nationalized Transport and Sikkim Energy and Department of Power) as early as possible and also establish regulatory authorities for their smooth functioning.*

Restructuring: Setting up of a Restructuring Board

The modalities of privatisation / restructuring have been discussed in the macro approach at length in an earlier section. Whereas enterprises found low on all the three dimensions viz., public purpose, profitability and resource mobilization, have to be privatised / wound up through trade sale, employee and management buy out (EMBO), and majority share ownership transfer, the enterprises to be retained need to go in for cold privatisation, OPTIMA, and partial privatisation through joint venture, minority transfer of share ownership, or strategic partnership. In each case an appropriate decision need to be taken by the government. *It is suggested that the government may set up a restructuring board which may deal with such cases from time to time. The Maharashtra Government, Karnataka Government, Punjab Government and the Government of Andhra Pradesh have set up a similar board either through a separate act or executive machinery under the charge of the Department of Finance. The Director (SLPEs) could act as the nodal officer for such machinery.*

Restructuring: Human Face

Restructuring has to have a human face. This is in line with the present policy on PEs of the UPA government. Both in the cases of closure / privatisation and retention of the SLPEs, the employment in the SLPEs get affected. These point to the need of social safety net in the SLPEs. The social safety net has five elements: survey of surplus manpower, voluntary retirement, counselling, re-training and re-deployment. The discussions with the SLPEs have revealed that the manpower planning has not received any attention in these enterprises as a result of which they became 'employment boards' and dumping ground of un-required government personnel. In most of the enterprises, the sanctioned strength is far lower than the existing number of personnel / deputations. About 25 -30 per cent employees are in excess of the requirement. This affects the work culture in the SLPEs and also adds to the cost of production making their goods and services uncompetitive. *It is suggested that the GoS may formulate a scheme of social safety net for the SLPEs which may assess not only the surplus manpower but also work out the number of employees who could be offered voluntary retirement and benefit from counseling, retraining and redeployment to the maximum possible extent. The government may bear the entire burden of the social safety net. The Director (SLPEs) may be entrusted with the responsibility of formulating and implementing the social safety net programme (SSNP). A special fund of Rs 10 crore may be created for this purpose and placed with Director (SLPEs) as a part of restructuring programme. The Director (SLPEs) could use this fund for social safety net, training and management development, clearing the arrears of accounts of the SLPEs and conducting internal audit, etc.*

Restructuring: Cost Aspects

We may now compute the total cost of restructuring and propose the allocation of funds for this purpose over a period of three years to make the whole exercise a part of medium-term fiscal planning. This requires us to estimate the value of assets, on the one hand, and work out the restructuring cost, on the other**.** Annexure 8.10 contains valuation of the SLPEs. As per the Annexure 8.10 the assets owned by the various SLPEs were of the order of Rs 426.50 crore as on March 31, 2004.

Annexure 8.11 contains the estimates of restructuring costs for the enterprises to be retained, on the one hand, and the enterprises to be privatised / wound up, on the other. The restructuring costs relate to voluntary retirement, training, renovation / expansion, write-offs, installation of IT facilities, settlement of court cases, liquidation of bank overdraft, repayment of loans, settlement of contingent liabilities, advertisement and publicity, operational deficit, government guarantees, payment of dues from the government, and working capital assistance. *As suggested earlier, a one time assistance could be provided by the government to meet out these costs which could be disbursed over a period of 3 years in a ratio of 34:33:33. The revenues from privatisation / restructuring need to be used for providing social safety net and improvement of performance of the enterprises to be retained.*

As noted earlier, some enterprises have to be privatisated / wound up. The valuation of these enterprises and their restructuring costs is contained in Annexure 8.10 and Annexure 8.11. The general principle that needs to be followed in the case of such enterprises is that if their restructuring costs exceed valuation, the gap has to be made good by the exchequer. However, if the receipts from the sale of these enterprises / their assets, exceed their restructuring costs, the excess of such funds should be utilized for providing social safety net. An analysis of Annexure 8.10 (Valuation of SLPEs) and Annexure 8.11 (Restructuring Cost of SLPEs) reveals that the enterprises to be privatised / wound up were valued at Rs 74.85 crore as on March 31, 2004 whereas, the restructuring cost amounted to Rs 24.96 crore as on the same date. Even if there is a decline in the market value of the assets to the tune of about 50 per cent in the case of the enterprises proposed to be privatised /wound up, there are no funds needed for this purpose from the GoS or any other external source. Annexure 8.11 estimates the gross restructuring cost at Rs 236.98 crore. Rs 24.96 crore has to be deducted from this towards the restructuring of enterprises to be privatised / wound up as that is going to be a self liquidating exercise. However, Rs 10 crore has to be added to the funds requirements on restructuring as this sum has to be kept at the disposal of the proposed Director (SLPEs) to carry out macro re-engineering of the SLPEs. In sum, the total funds requirement for the restructuring of the SLPEs would be Rs 222.02 crore (composed of Rs 236.98 crore of gross restructuring cost – Rs 24.96 crore of restructuring cost of enterprise to be privatised / wound up + Rs 10 crore as the macro restructuring fund to be kept at the disposal of the Director - SLPEs). This amount could be disbursed over a period of three years to the tune of Rs 75.49 crore, Rs 73.27 crore, Rs 73.27 crore. The privatisation / winding up of the nine enterprises as indicated in Annexure 8.12 is estimated to have saved Rs 35.69 crore in 2003-04. The enterprise –wise detailed restructuring plan is presented in Annexure 8.13.

Box VIII
Recommendations regarding Individual SLPEs

SLPEs to be privatized State Trading Corp Ltd Sikkim Consumer Co-operative Society Sikkim Jewels Ltd Sikkim Hatchery Ltd Sikkim Poultry Dev. Corp. Ltd Sikkim Precision Industries Govt. Fruit Preservation Company Sikkim Time Corporation Sikkim Power Dev. Corp **SLPEs to be merged (Retained)** The Denjong Agricultural Co-operative Society and Sikkim State Co-operative Supply and Marketing Federation	**SLPEs to concentrate on promotional activities and refrain from production and sale (retained)** Sikkim Handloom Croporation Sikkim Handicraft Dev. Corp. **SLPEs to be retained** Sikkim Co-operative Milk Producers Union Tea Board of Sikkim Sikkim Nationalised Transport Sikkim Energy and Department of Power SABCCO Sikkim Tourism Dev. Corp

9. Improving Statistical Infrastructure

Fiscal policy does not function in a vacuum and is always considered as a part of the broader macroeconomic setting. The annual budget, an embodiment of government fiscal policies, is formulated after taking into account the developments in the economy as a whole. In turn, the budget also has a considerable impact on the economy. The relationship is reciprocal and changes in each need to be taken into account in analysing data as a first step in the formulation of fiscal policies. In addition, some specific components of the budget in general and public expenditures in particular, need information at a more disaggregated level. More specifically, poverty alleviation measures are dependent, to a very large extent, on the definition of poverty line and identification of those below it.

Both the macro and micro aspects of the statistical infrastructure, a vital ingredient of economic policy making have been reviewed in some detail by the team. The team aimed at a detailed review of the components of the system, as well as the technical capacity of the operational officials engaged in this work. The review revealed several problem areas in the design and day to day management of the system, as well as in the technical adequacy of the operational officials. With a view to addressing the second problem both as a preclude and as a concurrent activity, the team organised, the training of officials. The training programmes conducted for Sikkimese officials are detailed in this chapter. The design and systemic aspects are considered below.

9.1 Statistical Infrastructure and Role of DESME

The statistical system in Sikkim is operated by the State Statistical Cadre of about 180 officials. The Department of Economics, Statistics and Monitoring & Evaluation (DESME), the most important among other departments has about 40 officials. The remaining officials of the Cadre are in statistical cells of various departments Forest, Animal Husbandry, Health, Education, and Welfare and so on. The Departments of Agriculture, Rural Development, Police and Land Revenue have no statistical cells. The ministries of Agriculture, Industry, Health and Education collect, compile and release data concerning their subjects through their publications.

Role of DESME

The main activities of DESME are:

a. to conduct the State sample component of sample surveys organized by NSSO annually.
b. to collect prices from specified retail shops and compute Consumer Price Index for Industrial Workers (CPIIW) for the urban sector and to release CPIIW and monthly price bulletins.

c. to prepare estimates of State Domestic Product (SDP), commonly known as State income and publish the same from time to time in the publication `State Domestic Product in Sikkim'.

Besides the above, it has the responsibility of ad hoc surveys and censuses for example, the Economic Census or the Economic Survey. Since the upgradation of the erstwhile Directorate to a Department, DESME has been supervising and handling the jobs of monitoring & evaluation work of all government departments It has an implicit role of coordination with the statistical cells in various departments and compilation of data for publication of reports like Statistical Profile of Sikkim, arranging training programmes for the statistical cadre and responsibility of administering District Statistical Offices for collection and compilation of data useful for DESME as well as other departments, carrying out budget analysis and so on.

The DESME has as mentioned above, about 40 officials from the statistical cadre to do justice to the responsibilities noted above. The UNDP has immediate plans to strengthen the overall statistical system of Sikkim. Further, under the World Bank Project of `Modernization of Statistical Systems' of all States, the Ministry of Statistics & Programme Implementation, GOI have entrusted the study for Sikkim, Assam, Arunachal Pradesh and Meghalaya to JPS Associates, the members of which were at DESME recently during 5-19 June. It is therefore, not the intention of this team to go into the issue of strengthening of DESME. But a few suggestions in the light of the lacunae observed in the statistical system and the working of DESME are noted below.

a. Need for a Review of the Cadre

Since long, no direct recruits have been inducted into the Sikkim State Statistical Cadre. The officials promoted to the posts of Assistant Directors and Deputy Directors do not have the requisite qualification in Statistics or Economics. The policy to cut down on the redundant staff is justified but the introduction of the adjunct of Monitoring & Evaluation has come up with a number of new posts that are filled up by promoting the officials and not recruiting duly qualified candidates. The quality of the work in the long run will suffer. Moreover, lateral transfers while continuing with the old functions of erstwhile divisions lead to inefficiency. The cadre officials in statistical cells of departments other than DESME by and large, deal with non-statistical work like correspondence, file dealings, progress reports; the statistical work stops with compilation. The result is that they hardly have the feel of the data transmitted by them; the analysis of the data is done by the heads of the departments. By and large, analytical faculty is not the forte of DESME or perhaps other departments. As such it may be difficult to find a department that could take up the poverty studies, one of the preoccupations of the Sikkim Government. The nature of work done by the cadre officials needs to be reviewed and measures taken to enhance their knowledge of not only basic statistics but also of applied statistical techniques. The scenario does emphasize induction of direct recruits.

b. DESME- Evaluation and Suggestions

With the quantum of ancillary work perhaps exceeding the load of the units dealing with three main activities mentioned above, there is the inevitable siphoning of the staff attached to these units to the detriment of work either not done at all or not completed on time. In fact, the work of units like National Sample Survey (NSS), State Income and Prices need to be monitored closely. There should be Action Plans to be formulated at the beginning of each financial year; the Director may convene meetings at regular intervals to monitor the progress and should ensure that each of these units have a core strength of staff not to be disturbed for other work. No wonder the State sample data never got processed, there being no accountability. If the staff are utilized for all and sundry work, the focus gets lost. If the data collected are not processed, the morale of the field staff is affected which in turn affects quality. A dynamic leadership is what is needed to motivate the cadre officials. For example, the Director should take some time off from his administrative responsibilities to provide technical input and look into the statistical work going on in the three main sections. While planning all items of work with an eye on the available staff he should also prod on the officers to take up analytical studies and for this purpose the library should also be brought in shape from the present chaotic condition.

Immediate Steps

i) Following the example of manual tabulation of 6oth round Household Consumer Expenditure Survey (HCES), set in the recently concluded training course on poverty estimation, the multipliers calculated may be used to bring out all the tables from 60th round HCES of State sample of NSS. The tabulation for other rounds may be taken up in a well drawn up plan. These items of work may be monitored. Officers of DPD, Kolkata may be invited for a thorough training in software package for HCES tabulation.

ii) Efforts may be initiated to compute consumer price index for the total rural sector with 2000 as base year. Steps may be taken up to send capable officers to Labour Bureau, Shimla for a thorough training in their methodology.

iii) The library is in shambles and needs to be set in order. A librarian may be appointed to take care of documentation of the existing material.

iv) A plan may be drawn up to carry out the training programmes noted in the next section . For this purpose, efforts may be made to find out the reputed institutes imparting such training, in particular for officers.

c. Training should have a purpose

The purpose of a training programme is to benefit the department in areas it is deficient. It is therefore, necessary that the list of trainees be drawn up with a foresight to include those who after training would form the asset. The list of trainees for the course on poverty estimation was drawn up with hardly any consideration to the qualifications, mental aptitude or their capability to handle future poverty studies for which they were supposed to be trained. There was a wide gap between the administrative, clerical or barely statistical work they were engaged and the core subject of training. Even the qualified trainees had their faculties rusted, some with an attitude to view the training period as duration off from their dull, stereotyped work. It's therefore, the system to be blamed. How could the whole of DESME staff sent to collect data for Economic Census? A planned approach would have been to recruit and train enumerators out of funds allocated for Economic Census well in advance The DESME withdrew the staff listed for training in poverty estimation either for work on State income or for evaluation or to the field for Economic Census, thereby depriving the department to have the benefit of a specialized course. Instead of motivating the staff, such a step is retrograde and the officials in future would not take seriously any training.

Training Measures

i) Training for primary staff:

This may include basic statistics like measures of central tendency and dispersion, probability distributions, index numbers, NSS surveys, scrutiny of schedules, preparation of factors of multipliers, primary checks during data processing and so on.

ii) Training for Statistical Officers and Assistant Directors:

This may include a snapshot view of topics in i) and basic knowledge of computers so as to make them computer literate, as also well versed in validation of data and able to write short programmes

iii) Orientation Course for Senior Officers

This may include a compressed course on official statistics, sampling theory and applications, report writing and computer processing of data.

The above three courses may be parts of an in-service training programme to be monitored by the Director of DESME so that through rotation all members of the statistical cadre are trained over a stipulated period of time.

9.2 Household Consumer Expenditure Surveys (HCES) and Poverty Estimation[5]

[5] Poverty estimation is done to ascertain the number and location of the poor for say, emergency food supplies or wage employment programmes and identification of beneficiaries for implementation of anti-poverty programmes. Poverty estimates help the State level administrations and planners to measure the

Household consumer expenditure surveys (HCES) form the most important constituent in the multi-subject socio-economic enquiries taken up every round of survey since the inception of NSS. Among other uses, the HCES provides the most crucial input for poverty estimation. To be more specific, information on quantities of food items consumed and total consumer expenditure are used to derive average per capita calorie consumption for different groups of pre-specified per capita total consumer expenditure, the tabulation that ultimately leads to determining the poor though it may be noted that the NSSO does not estimate the poverty ratio. It is the Planning Commission (PC) that brings out the poverty ratio for different States. Sikkim does not have a poverty line of its own. For reasons elaborated later, the PC uses the poverty ratio of Assam for calculating the poverty estimate for Sikkim.

9.2.1 The NSSO Methodology for HCES

The Survey Design & Research Division (SDRD) of the NSSO lays down the sampling design for a particular round of survey. The annual rounds of HCES are interspersed with quinquennial rounds with larger sample size. In these quinquennial rounds, the employment-unemployment schedule is also canvassed in the same set of sample villages or urban blocks where HCES is conducted. A two stage sampling design is adopted with provision for sub-stratification at the second stage. The sampling frames of villages and urban blocks are maintained and updated by SDRD at Kolkata. The samples for the rural and urban sectors are selected by the SDRD for all the States.

The sampling design is universal in its application whether the state is big or small. The total sample is drawn in the form of two samples: Central and State. The Field Operations Division (FOD) of NSSO collect the data in respect of the Central sample while the respective staff of the States collect data for the State sample. Before a survey is launched a Central Training Conference is organized by the NSSO in which there are participants from the States too. The States again, participate in the Regional Training Conferences. During the conduct of the survey, the States are required to send Monthly Progress Report to the Headquarters of NSSO, FOD.

impact of the development programmes undertaken and to monitor the performance and progress of specific programmes launched to eradicate poverty.

In the absence of a reliable poverty ratio, it would be difficult for the State to mobilize the resources avaibale from the Centre and its own for poverty alleviation. It would be difficult to identify the target population that is, the villages, the communities and the households for designing appropriate strategies and also to monitor and evaluate the progress.

One of the most important considerations of obtaining a reliable poverty estimate from the viewpoint of the State Government is that the poverty ratio is applied in allocation of central assistance to States not only under various anti-poverty programmes but also under several developmental or social security programmes. A reduced number of poor means a lower allocation.

State Sample

Supervision of field- work is State's concern and obviously the quality of state sample data depends upon the effectiveness of supervision. The SDRD forwards a Scrutiny Programme to the States and a minimum quota of schedules is to be checked thoroughly by the District Field Office of the States before forwarding the schedules to their Headquarters. It is only at the data entry phase that the link between NSS authorities of the States and NSSO is again established when data entry layouts are forwarded by the Data Processing Division (DPD) to the States for transcription of data. A validation software package is also sent by the DPD so that error free data are sent for tabulation by the DPD.

Some major States are presumably doing all these exercises by themselves. For Sikkim the dependence on the DPD is total. Discussions with the officials of DESME reveal that even though Sikkim is participating on a matching basis since 38th round (1983) not a single round data on HCES has been processed to facilitate the preparation of a report. The reasons for such a lackadaisical approach could be the lesser priority given to the NSS work in preference to ad hoc surveys and /or work relating to state income and price statistics. Other reasons could be the poor quality of data emanating from the field in absence of effective supervision and resultant lack of motivation. There was hardly any awareness of the importance of the 61st round, being a quinquennial one with a larger sample size. Many of the 55th round reports are not found in the library. The issue is more of awareness of the mine of information left untouched than of strengthening the data base. The former could perhaps take care of the latter.

9.2.2 Steps for Improvement

i) Immediate steps may be taken to enforce a three-tier scrutiny of the schedules, namely, at the field level, district level and the DESME headquarters so that fewer errors are found during data entry stage.

ii) Attempts to clear the backlog may start with the 55th round (1999-2000), a quinquennial round. For this purpose, the DPD may be approached for guidance in transcription, validation and tabulation. If required, specially qualified staff may be deployed. This will lead to the strengthening of local capacity.

iii) Gradually capacity building may be extended to tabulation and multiplier calculation. This would imply deployment of a system analyst cum programmer who can write programmes and generate tables according to the tabulation layout.

iv) Central sample results of HCES for all the quinquennial rounds for Sikkim be compiled and analysed by senior officers of the statistical cadre to see the trends if any, in consumption pattern over time and generate interest in analysis.

Till the time in-house capability of the computer cell is enhanced, efforts may be made to get the State sample data processed and tabulated at the DPD, Kolkata and for this purpose the Chief Executive Officer, NSSO may be approached. Alternatively, since the sample size in terms of households is a little more than 1000, the data after scrutiny may be transcribed on Excel sheet with sample households as rows and items as columns. Multipliers at the sample village x second stage level may be calculated at DESME instead of looking forward to DPD. A beginning has been made in the recently concluded training course on poverty estimation when the data of 60th round were manually tabulated by the trainees and data entered on the computer and with the help of Sch 0.0, the multipliers were calculated.

9.2.3 Exercises on Poverty Estimation

Discussions with the Departments of Planning & Development, Rural Development and Food & Supplies reveal that a multiplicity of exercises on poverty is in process, each exercise involving house to house visit in an attempt to identify people Below Poverty Line (BPL). For example, the Economic Survey, 1999-2000 was undertaken to identify people below poverty line to be completed within 100 days, deploying 1000 enumerators and 300 supervisors, requisitioning the services of all the ministerial staff and field staff in various departments. The study was however, abandoned. The Rural Development Department in Sikkim uses the guidelines given by the Ministry of Rural Development, Govt. of India for identifying the people below poverty line. The Food & Civil Supplies Department have a set of criteria for selection of BPL beneficiaries for PDS items through Panchayat Wards, convening the Gram Sabha, assigning a maximum limit of BPL beneficiaries for Gram Panchayat Unit

9.2.4 HCES & Poverty Estimation

a) The T.O.R suggests training of concerned officials of the DESME for conducting HCES in line with the NSSO methodology to get a reliable poverty profile. One of the important considerations of obtaining a reliable poverty estimate, apart from monitoring the progress due to anti-alleviation programmes, is that the poverty ratio is applied by PC to allocation of central assistance to the States and hence the importance of the Official method of poverty estimation. While the Official method comprises anchoring the absolute poverty line in the normative minimum calorie-intake (TF methodology), any preliminary estimate obtained should be compatible and within acceptable limits of the official estimates. The TF methodology, in brief is first to determine calorie requirement norm taking into account age, sex, occupational structure of the population based on the ICMR recommendations for the base year and then the expenditure level of households required to meet the normative calorie requirement that is, translating nutritional requirement into its monetary equivalent to obtain the poverty line. The table providing information on average quantities of food items consumed per capita as well as average total per capita total consumer expenditure grouped by monthly per capita expenditure is pivotal for the Official method of poverty estimation so far as HCES is concerned. The average per capita quantities of food consumed within each MPCE group are converted into calories using standard conversion factors.

If the State sample is processed and combined with the Central sample, there is no need to go for a fresh survey on the lines of NSSO for poverty estimates. The combined sample would in all likelihood give reliable estimates at the District level. On all counts, the year 1999-2000 that also coincides with the 55th round would be suitable as the base year. Given the weighting diagram, the ICMR norms may be considered to arrive at the overall average calorie requirement norm per day for Sikkim. The results for Sikkim from the combined Central and State samples of HCES may be used for determining the monetary equivalent of the average calorie requirement norm per day. This would be the poverty line for Sikkim.

9.3 Problems and Issues relating to Poverty Estimation for Sikkim

Three issues among many stand apart:

1. Official documents present the number of poor in Sikkim using the Head Count Ratio of Assam. Sikkim does not have a poverty line of its own.
2. The size distributions pertaining to HCES, crucial for poverty estimation based on the Central sample are to be used while if it were possible to process the State sample in tandem with the Central sample, the results based on the pooled sample would be far more reliable. For instance, the 55th round Central sample results on average calorie intake does not exhibit the monotonic increasing relationship with the monthly per capita consumer expenditure. If it were possible to arrive at the minimum calorie norm for Sikkim, it is not possible to determine the poverty line from the Central sample size distribution. The State sample results if available would have enlightened this issue.
3. The rural sector accounts for 90% of the total population of Sikkim, yet there is no cost of living index for the rural sector. The fact is that for price collection there are ten retail shops in the rural sector and four in the urban. While the prices for four in the urban sector are utilized along with the weighting diagram to compute Consumer Price Index number for industrial workers, the rural retail prices are combined with urban prices to bring out average commodity prices in the monthly price bulletins for Sikkim. If hypothetically, poverty line for the rural sector is determined for any base year say, 1999-2000, the poverty line cannot be forwarded and updated because of absence of deflators.

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9.4 Plan for Poverty Estimation

The year 1999-2000, coinciding with the NSS quinquennial 55th round, based on a large sample may be taken as the base year for estimating poverty line and poverty ratio for rural and urban sectors of Sikkim. The following are the exercises to be done.

Derivation of Average Calorie-Intake for Sikkim

The Task Force methodology may be adopted. The sources of data to be culled and the method of computation are given below:

a. Population Census, 2001, if population projections for age x sex distributions are not available
b. Age-specific-worker-population (ASWPR) from 55th round Employment & Unemployment Survey of NSS.
c. Percentage distribution of main workers (15 +) by industrial division from Population Census 1991 (as the same for 2001 Census would not be available)
d. From a priori classification of industrial divisions according to heavy, moderate and sedentary, obtain sex wise workers according to activity and sex wise non-workers so as to conform to ICMR classification for calorie-norms
e. Obtain the percentage distribution separately for rural and urban sectors of the population classified as above. These will be the weighting diagrams The weighted average that is, multiplying the calorie norms with the corresponding weights and summing up and dividing by 100, the respective average calorie-intakes for rural and urban will be obtained.

It may be noted that the calorie norms obtained could be in the proximity of all India norms prescribed by TF but the fact to taken into account is that over time there has been a decline in average calorie-intake. This means that some adjustment would be needed for use in determining poverty line from the NSS table discussed later.

Average per capita calorie intake by MPCE classes

a. Compile the Central Sample results, in particular the Sikkim size distributions of number of persons and average per capita calorie-intake by MPCE classes from NSS reports for all the quinquennial rounds and see whether there is an increasing trend of calorie-intake and MPCE.
b. The latest quinquennial round is 61st (2004-05) for which the NSSO would take time to process and publish the distribution mentioned above. Nevertheless, the job for State sample may be taken up. Besides, the data of 55th round for the State sample should be processed and the distributions of Central and State samples compared. The NSSO may be

approached for raw data of the Central sample so that the two samples may be pooled to have double the sample size.

It may be noted that the above requirements are specific to poverty estimation and the various other revealing socio-economic aspects are left out. While the former tabulation could be done on Excel sheets, for the latter, the software package of DPD, Kolkata is to be used and for which intensive training of the computer personnel would be needed.

9.5 Derivation of Poverty Line

The average calorie intakes corresponding to the poverty lines (furnished by Planning Commission) for major States could be computed from the Report on Nutrition Intake, released by NSSO for 55th round. The only state in the vicinity of Sikkim is Assam. If C_A is the calorie intake corresponding to the poverty line say, for rural Assam, the adjusted calorie norm for rural Sikkim that is, C_S may be calculated as

$$C_S = (C_A * C_N / 2400)$$

where C_N is the average calorie norm arrived at by the exercise mentioned at (a) to (e) above. C_S may be used for determining the poverty line for Sikkim from the NSS size distribution, if C_N is significantly different from 2400, otherwise C_A itself may be used.

Price Statistics

If the issue of pooling the Central and State samples is problematic, the issue of forwarding and updating the poverty line obtained for base year requires systemic changes. As mentioned earlier, rural price collection apparatus does exist since long but the data collected are used only for bringing out price bulletins for combined rural and urban sectors. Neither there is consumer price index numbers for any segment nor there is for the sector as a whole. It is a far cry from the separate indices for four broad groups used by the Expert Group for updating the poverty line. The following exercises are suggested:

1. Obtain the weighting diagrams for both rural and urban sectors from the 55th round HCES if not for different commodities then for suitable groups of commodities. Since the State sample data are not processed, the relevant NSS reports based on Central sample may be consulted for use.

2. Retrieve the price data for different commodities collected from 10 rural retail shops for the years 2000 onwards and obtain the price relatives taking January 2000 as base by averaging the ten figures. The commodities may be divided into four groups a) food b) fuel & light (c) clothing & footwear d) miscellaneous. Using the weights for the commodities in these groups and the price relatives, obtain separate index for each group with base year 2000 as 100

3. From the NSS size distribution of 55th round take a few size classes of MPCE around the poverty line obtained earlier, a few below and a few above. Calculate the total expenditure in each of these classes on seventeen groups of items say, cereals and products; pulses and products; oils and fats; meat, fish and eggs; condiments and spices; fruits and vegetables; other food; pan, supari, tobacco& intoxicants; fuel &light; housing; clothing, bedding & footwear; medical care; education, recreation and amusement; transport & communication; personal care and effects; other non-food. The groups are only illustrative and may be changed suitably for rural and urban areas. Add up the total expenditure for the selected classes to arrive at the total expenditure for each commodity group. Derive the percentage distribution with total expenditure as 100. The weights for the four groups may be obtained from this distribution.

4. The overall weighted consumer price index may be obtained by using the above weights and separate group indices. These will be the consumer price indices for the middle population of Sikkim that is, the CPIMR and the CPIMU respectively with base as 2000. The poverty lines for rural and urban sectors as in the base year will be adjusted for prices on the basis of CPIMR and CPIMU.

It is suggested that a select few officials of the statistical cadre may be sent to the Labour Bureau (LB), Shimla for a thorough training in the LB methodology adopted for consumer price index numbers. It may also be explored whether the LB network may be extended to Sikkim.

Alternative to HCES, NSS

In a situation where the present status relating to process the State sample of HCES of NSS shows no sign of improvement, an expedient measure could be to launch an independent survey purported to estimate poverty, given the threshold of minimum calorie-intake.

Sample Design

The sample survey may have a total sample size of the present Central and State samples in terms of first stage units (fsu's). The design should be a stratified two stage one with the villages as usual as fsu's and households as second stage units (ssu's). This means compared to 92 villages and 20 urban blocks surveyed for the State sample, the proposed survey would cover 184 villages and 40 urban blocks.

It's at the stage of selection of fsu's, we can think of a departure from the sample design of NSS. The pps selection of fsu's results in selection of large villages which account for 45% of the total sample. As a sequel, hamlet formation is needed in a big way sowing the seeds of non-sampling errors by giving the latitude to investigators to select hamlets with low population content in a situation where supervision is lax and the hilly terrain discourages both the investigator and the supervisor to do justice to the job of hamlet formation. The pps sampling is no doubt efficient compared to other methods of selection but the relative efficiency is accompanied by an unknown component of non-sampling error. A systematic sample after arranging the villages in the frame according to ascending order of the size of the village would be easy for the investigators and the number of villages requiring hamlet formation would be less, though the design is less efficient.

The second departure from the NSS sample design pertains to the second stage stratification purported to be simpler. Since it is a dichotomy aimed to divide the households in the sample village into poor and non-poor, two-fold criteria of below cut-off MPCE of Rs.550 for rural and Rs.650 for urban and possession of BPL card would qualify a household as poor. Ten households to be sampled may be allocated as eight from the poor and two from the non-poor and may be selected circular systematically from the two second- stage strata. As the design is not self-weighting, no cumbrous procedure regarding allocating of shortfalls in sample size of the second stage strata is suggested.

Schedule for canvassing

The schedule may be modeled on the basis of NSS Sch 1.0 but to be limited to the items needed for poverty estimation or in other words, an abridged version of Sch 1.0 may be used. The listing Schedule 0.0 (NSS) has to be suitably modified.

Survey Duration and Reference period

The survey should be completed within three months and it may preferably be undertaken during September - November. The total sample is to be divided into two sub-samples. Both the sub-samples are to be launched concurrently. A reference period of 30 days preceding the date of survey may be adopted for food items and 365 days for consumer durables in line with NSSO methodology. Two reference periods of 7 days and 30 days should not be used.

Training Manual & Training of Field Staff

Comprehensive instructions for filling up of schedule are to be given. The concepts and definitions should be the same as that of the NSS. There should be an intensive training for the investigators and supervisors before launching the proposed survey. The training should be conducted under the supervision of senior officers technically well versed in survey methodology.

Thin sample for checks on Quantity Estimates

A thin sample from the 184 sample villages and 40 urban blocks, mentioned earlier may be devoted to checks on quantity estimates of food items through diary method.

Workload & Investigator Requirements

The total sample of 224 sample villages and urban blocks would be distributed to districts in proportion to population. It would be something like 20, 60, 60 and 84 for north, west, south and east respectively. It is estimated that for completion of listing of households, selection of sample households and collection of information from ten sample households of the sample village/ urban block would require 6.5 days for an investigator. Taking into account the supervision and the work relating to thin sample and the survey duration of three months, 22 investigators and eight supervisors would be required. The break up would be like 2, 6, 6 and 8 investigators for north, west, south and east districts respectively. The allocation of supervisors would be 1, 2, 2 and 3 for the districts in the same order.

Cost of the Survey

The different stages of planning (collection of frame, selection of samples, questionnaire designing, printing of schedules and recruitment of field staff, writing of instruction manual), training of field staff, actual conduct of the survey, field checks and data entry, validation and generation of final tables and analysis would entail a cost of about Rs.18 lakhs.

9.6 Report on 'Training Program of Officials of the Sikkim Statistical Services'

I. Training on `The NSSO Methodology of Household Consumer Expenditure Survey (HCES), Sampling Techniques and State Income & Related Aggregates'

As a part of capacity building in the Government of Sikkim, the first capsule of the training of concerned officials of the Sikkim Statistical Service on 'The NSSO methodology of household consumer expenditure survey (HCES), sampling techniques and State Income & related aggregates' was undertaken during 2-15 March, 2005. Ninety participants of the Statistical Cadre working in the Department of Economics & Statistics and Monitoring & Evaluation (DESME) and in the Departments of Human Resources & Development, Health Care, Human Services & Family Welfare, Transport, Irrigation and Flood Control, Forest, Environment & Wildlife, Animal Husbandry & Veterinary Services, Food & Civil Supplies, Social Welfare, Social Justice, Empowerment & Welfare and Co-operatives attended the lectures under the Training Programme which also included Practical Workshops intermittently

9.6.1 Curriculum for Survey Methodology:

Topic 1: HCES – a brief review

Background, the NSS consumer expenditure survey, scope and coverage, participation of states, source concepts, usefulness of HCES data for poverty studies

Topic 2: **Survey Methodology** – A general outline Planning of Survey – Formulation of objectives, population to be studied, sampling frame, itemization of information to be collected, concepts & definitions, methods of collecting information, survey period and reference period, choice of sample design, questionnaire designing, integrated household surveys, multi subject vs uni-subject surveys, errors in surveys.

Topic 3: **Introduction to Sampling -** Need for information, sampling versus complete enumeration, sampling and non-sampling errors subjective methods of sampling – purposive, quota and haphazard methods.

Objective method - Probability sampling: basic concepts and definitions – elementary unit, population, parameter, sampling unit, sampling frame, random sample, 'statistic', estimator, estimate, sampling distribution, standard error, bias, sampling variance, mean square error, accuracy, precision reliability and validity, confidence interval use of Random Sampling Numbers.

Topic 4: **Basic Sampling Schemes -** Simple random sampling with replacement and without replacement, estimation of population parameters and variance. Relative efficiency of SRSWR and SRSWOR, size of the sample

Systematic sampling – linear (lss) and circular (css), advantages of systematic sampling, main disadvantages, estimation of population parameters

Probability Proportional to Size (PPS) selection procedure – cumulative method and Lahiri's method.

PPS systematic sampling
Selection procedure. Advantage
Estimation of population parameters in pps

Topic 5: **Some important techniques for drawing samples and Estimation -**
Use of supplementary information, stratified sampling – situations that call for stratification, allocation of sample to strata - proportional allocation and optimum allocation, relative efficiency stratified srswr – estimation of population total and

population mean, cluster sampling - estimation of population parameters and the variance.

Multi stage sampling – selection procedure, relative efficiency compared to cluster sampling, the variance function and the cost function.

The above curriculam was designed to provide the basics of sampling and household surveys with particular reference to HCES in view of the 'reliable poverty profile' sought by the Sikkim Government. At the expense of some digression, the thrust of the first part of the training was to make the trainees understand how the sampling process scores over the complete enumeration and why a particular choice of sample design is adopted given the cost restraint and how the errors are controlled. Reliability of results is not achieved if a particular survey is planned in haste with deployment of raw investigators.

II. Training on `Concept & Measurement of Poverty and Issues relating to Poverty Estimation for Sikkim'

The second part of the training programme on **`Concept & Measurement of Poverty and Issues relating to Poverty Estimation for Sikkim'** scheduled to be held in April 2005 was conducted during 13- 24 June, 2005 because the trainees were busy with collection of data in respect of the Economic Census. Twenty two participants out of the thirty earmarked for the training attended the course. The representation from the different departments is as shown below:

	Department	No. of Trainees
1.	Directorate of Economics & Statistics and Monitoring & Evaluation	1
2.	Forest, Environment & Wildlife Management	5
3.	Health and Family Welfare	5
4.	Irrigation	1
5.	State Nationalised Transport	2
6.	Women & Child Development	2
7.	Human Resources Development	3
8.	Cooperation	1
9.	Social Justice, Empowerment & Welfare	1
10.	Roads & Bridges	1

9.6.2 Curriculum for Poverty Estimation

Topic 1 : Need for estimating poverty

Topic 2 : Concept of Poverty

Necessities vs. Basic Human Needs, Conceptualisation of Basic Human Needs, Absolute and Relative Poverty, Specification of norms

Topic 3 : The Operational Norm- the Indian Context

Two approaches i) Minimum Normative Food Basket ii) Minimum calorie- intake as anchoring input for minimum living standard

Topic 4 : The Task Force Methodology

Derivation of the age x sex x activity weighting diagrams for rural and urban sectors, average calorie-intake from weighting diagram and ICMR calorie norms, use of HCES size distributions of per capita calorie intake by MPCE classes for derivation of national poverty line;; inadequacies of TF methodology

Topic 5 : The Expert Group Method

Improvements over TF method, Acceptance of TF national poverty lines, use of appropriate deflators; use of cost of living indices for forwarding the poverty line separately for rural and urban sectors, introduction of cost of living indices for people around poverty line; state-specific consumer price indices and inter-state price differential for calculating state specific poverty lines. Poverty Ratio

Topic 6: Measurement of Poverty

Head Count Ratio and its limitations; Poverty Gap Index, its merit of assessing the depth of poverty but the disadvantage of not measuring the inequality among the poor; Sen's Measure, its ability to measure prevalence, depth of poverty and inequality in income distribution of the poor and finally the generalized decomposable FGT measure, similarity with Sen's measure.

Topic 7 : Problems & Issues of poverty estimation for Sikkim

Gaps in price statistics: consumer price indices for rural sector as a whole and for different segments of population not available; NSS State sample of HCES not processed and hence pooling with the Central sample not possible for getting reliable relevant data for determining poverty line for Sikkim; Assam's poverty ratio used for Sikkim for estimating poverty for the state; appraisal of official poverty ratios and Dubey-Gangopadhyay estimates; implications of proxy estimation, considering size distributions of Assam, Sikkim and Manipur. Trend in official poverty ratio for major States and adjustments done by researchers; Trend in average calorie-intake.

Topic 8 : Manual Tabulation of State Sample HCES data of 60th round (2003-04) & Multiplier Calculation

Layout for copying relevant items of information from schedule 1.0 for obtaining size distribution necessary for poverty estimation and factors of multiplier from schedule 0.0. Data entry on Excel sheets district- wise; standard conversion factors in terms of calorie for food items entered along side quantity estimates and multipliers; illustration of estimation procedure.

The job was undertaken by the trainees and completed within 3-4 days, alongside theoretical classes. A select few entered the data on computer.

The curriculum was designed to familiarize the trainees with the rudiments of concept and measurement of poverty. The focus was on the exposition of the official method adopted by the Planning Commission, followed by the implications of proxy estimation and the reasons why Sikkim even after decades does not have a poverty line. One of the disheartening features is the collect-but-don't-process syndrome affecting the State sample surveys carried out for years. The purpose of getting 60th round data copied and entered on Excel sheets by the trainees and getting the multipliers calculated was to demonstrate that the DESME need not look forward to the DPD, Kolkata for a job that can be done in their office. The myth of multipliers is blown up. How can the SDRD, Kolkata compute the multipliers when the listing schedules 0.0 providing the main factors for multipliers are with DESME?

There was a disproportionately large representation from a few departments for the training while all the DESME trainees were siphoned off (during mid-session, one was sent).

9.7 State Income, Capital Formation and Saving[6]

[6] Annual estimates of State income or National income can be prepared by Production approach as a difference of value of output less value of inputs or Income approach as a sum of compensation of employees plus operating surplus or Expenditure Approach as a sum of –

(a) Private Final Consumption Expenditure
(b) Government Final Consumption Expenditure and
(c) Capital Expenditure on fixed assets plus increase in stock of goods and raw materials.

The capital expenditure incurred on fixed assets and increase in the value of stock of goods and raw materials is termed as a capital formation. Thus capital formation during the year is that part of the State income which is used for creation of physical assets in the form of buildings, roads and bridges, irrigation dams, laying of pipeline for water, sanitation etc. and other construction works; machinery and equipment including transport vehicles as well as breeding livestock, dairy cattle, drought animals used for production of milk and meat and other products, ploughing of fields, transportation etc., and increase in the value of stock of goods and raw materials not consumed or used in the creation of physical assets during the year.

The estimates of capital formation accumulated over the lifespan of the assets gives the capital stock of State, i.e., the wealth of the State at a point of time say 1st April 2005 which is used for further production of goods and services. Thus the estimates of capital formation at state level provide an indicator of the magnitude and growth of productive potential of the State economy. The State income for a particular year is directly proportional to the labour and capital used for production. Capital formation during the year divided by the State income is a measure of the rate of capital formation. The rate of capital formation for a particular State for a year or over the period of time can be compared with the rate similar rate of other states as well as at the national level.

Saving represents the excess of current receipts over the current expenditure of the enterprises engaged in the production of goods and services and for the households it is the excess of current income

State Domestic Product commonly known as State Income is an overall indicator of the State economy. The estimates of SDP are prepared annually by the State Income Unit (SIU) of the Department of Economics and Statistics, Monitoring and Evaluation (DESME), Government of Sikkim. The estimates of SDP are prepared at the gross/net levels i.e. Gross Domestic Product/Net Domestic Product both at current and constant prices from 1980-81 onwards. These estimates from 1980-81 to 1993-94 are available at current and constant (1980-81) prices as per the old series. These estimates as per the new series with base 1993-94 are available from 1993-94 to 2003-04 at current prices and from 1993-94 to 2001-02 at constant (1993-94) prices. Theses estimates are published from time to time in the publication 'State Domestic Product of Sikkim'. The third issue of this publication was brought out in 2001 at the time of finalization of the estimates as per new series with base 1993-94. The publication contains the estimates as per new series from 1993-94 to 1999-2000 at current and constant (1993-94) prices. The publication also contains the estimates from 1980-81 to 1992-93 as per old series at current and constant (1980-81) prices. These estimates are made available to the Central Statistical Organization (CSO), Ministry of Statistics and Programme Implementation, Government of India and other organization for their use.

The estimates of saving and capital formation are **not** being compiled by the SIU. Some of the states are compiling the estimates of gross fixed capital formation by industry of use on an annual basis. Realizing the importance of the estimates of saving and capital formation the present Project in the Terms of Reference provides for preparation of the Manuals for estimating saving and capital formation for Sikkim so that regular work in this regards may be initiated by the SIU.

The SIU is headed by a Deputy Director. Currently besides the Deputy Director the SIU has one Assistant Director, two Statistical Officers and two statistical inspectors.

9.8 Terms of Reference

Initial Terms of Reference (TOR) of the Project for State Income was to 'Prepare Manuals for estimating saving and capital formation'.

The estimates of State Income or the state domestic product (SDP) are the foundation for the estimates of saving and capital formation. The available estimates of SDP at the beginning of the project showed abnormal growth since 1993-94. Preliminary review indicated that the standard

over household final consumption expenditure during the year. Thus it is that part of the State income which is not consumed by the households or the government during the year and is equal to the capital formation during the year. Saving by type of institutions is public sector – Government administrative departments and Public Sector enterprises, private Corporate Sector and the households indicates the share of each of the institutions in the saving of the State. For giving fillip to the saving the government from time to time announces incentives for saving.

methodology recommended by the Central Statistical Organization (CSO), Ministry of Statistics and Progamme Implementation, Government of India was not being followed appropriately in some cases. These estimates as such were likely to be revised downward after appropriate revision. To make the Terms of Reference in respect of State Income more effective, without any additional cost to the project, the TOR were accordingly revised by the Expert as follows:

1. Critical review of the estimates of SDP.
2. Suggest improvements and provide training and guide the revision of the SDP estimates both at current and constant (1993-94) prices so that these estimates are more reliable.
3. Review available data sources for estimation of saving and capital formation for Sikkim and suggest suitable methodology for compilation of the estimates of saving and capital formation.

In view of the above, under the present Project, the issues in respect of State Income, Saving and Capital Formation for Sikkim are:

1. Revision of the existing estimates of State Income.
2. Methodology for Estimation of Saving for Sikkim.
3. Methodology for Estimation of Capital Formation for Sikkim.
4. Training of the officers and staff of DESM&E and other departments in Estimation of State Income, Capital Formation and Saving.

9.9 Revision of the Estimates of State Domestic Product

Accordingly the work on the Project relating to State Income was initiated by the Expert in DESM&E on the basis of the revised TOR. On the basis of the critical review of SDP estimates by the Expert the revision of the estimates of SDP at current and constant prices was taken up by the State Income Unit (SIU) of the Department of Economics and Statistics, Monitoring and Evaluation, Government of Sikkim. This exercise has been completed by the SIU. Significant improvements/revisions made in the SDP estimates are detailed below. The revised estimates are likely to be more stable and reliable.

1. ***Agriculture:***

   - Cultivation of plucked tea leaves has been accounted. Data for the same has been obtained from the Sikkim Tea Board.
   - Government irrigation has been taken as part of agriculture.
   - Fallen animals have now been accounted.
   - Results of latest livestock census have been used.

As a result the overall estimates have been revised downward for some of the years mainly because of the lower livestock figures.

2. *Mining and Quarrying:*

- Data on revised inputs have been used.
- Output of sand and stone was not adequately accounted as the reported figures did not account for the total production of sand and stone. The output of sand and stone has now been accounted adequately in proportion to the construction activity. As a result the estimates of mining sector have been revised upward.

3. *Manufacturing Un-registered:*

- The use of latest all-India Index of Industrial Production (IIP) and Wholesale Price Index (WPI) has resulted in a downward revision.

4. *Construction:*

- State-wise data on expenditure on construction for the central government non-departmental commercial undertakings (NDCUs), departmental commercial undertakings (DCUs) and central government offices in states are not available as their operations are spread over many states.
- For central NDCUs the Bureau of Public Enterprises, central government collects annual data on gross block of assets. Total expenditure at national level of central NDCUs is allocated to the states by National Accounts Division (NAD) of the Central Statistical Organization (CSO), Ministry of Statistics and Programme Implementation, Government of India using these data. Earlier the national level expenditure on construction was allocated in proportion to the state-wise gross block of assets. This procedure has lately been changed and the allocation is done in proportion to the increase/decrease of gross block of assets during the year. Using the latest procedure the allocated figures for Sikkim for the years 1990 onwards made available by the NAD are erratic or negative or abnormally high and are **not** usable as such. The Figures for NDCUs can be only be positive as there is no transfer of assets from the NDCUs to other sectors. National Hydro Power Corporation (NHPC) is the main NDCU in Sikkim. Data for Sikkim have been obtained from their office in Singtam from 1999-00 onwards and used. This has resulted in substantial downward revision in the SDP.

- For the central government administration and central DCUs the allocated figures are erratic and abnormally high or low. These figures have been smoothened and used. Data from state units need to be collected annually.
- For state NDCU the SIU has now taken up the analysis of their accounts and the actual figures are proposed to be used
- The estimates of rural/urban dwellings are now based on the results of the AIDIS, 1991-92.
- Figures supplied by NAD for residual household construction comprising religious and other non-profit institutions, cooperatives and corporate enterprises are erratic and abnormally high. In consultation with the building contractors this part has been assumed to be 20% of the household construction.

5. ***Electricity, Gas and Water Supply:***

- The downward revision is due to the use of latest data.

6. ***Transport:***

- Passenger transport by bus is operated only by the state government enterprise 'State Nationalized Transport (SNT)'. This part was also being covered in the private sector. This duplication has been avoided. This has resulted in a downward revision in the estimates.

7. ***Public Administration**:*

- The estimates of net state domestic product were treated as gross state domestic product. Consumption of fixed capital (CFC) was not accounted. This has now been accounted and the estimates have been revised upward because of CFC.

8. ***Other Services:***

- The estimates have been revised upward due to revised and latest data.

Per Capita Income:

The estimated population for1993-94 to 1998-99 has been revised downwards as a result of the use of latest population census of 2001. The revised estimates of SDP and per capita income both at current and constant (1993-94) prices and their growth over the years are lower than the existing estimates. Detailed revised estimates are given in Annex 6.1.

9.10 Revised Estimates of GSDP at Current Prices

As a consequence of these revisions the revised estimates GSDP from 1993-94 to 2004-05 along with the previous estimates are given in Statements 6.1. For 1993-94 these have been revised upward by Rs. 15 crores and the per capita GSDP by Rs. 615. For the year 2002-03 the GSDP has been revised downward by 62 crores and the per capita income revised downwards by Rs. 945. However for 2003-04 the estimates of GSDP at current prices have been revised downward marginally by Rs. 11 crores and the per capita GSDP has been revised downward by Rs. 191. .The per capita GSDP for 2003-04 is Rs. 23595 as compared to Rs. 23786 estimated earlier. The average growth rate of GSDP during this period at current prices has fallen marginally from 13.77 percent to 13.15 percent. Accordingly the NSDP has also been revised.

At the industry level the comparative estimates of GSDP at current prices (revised and pre-revised) are given in Statement 6.3 for 1993-94 and 2003-04. The overall estimates for 2003-04 have been revised downward marginally by Rs. 11 crores. But the estimates for 2003-04 at industry level have undergone substantial revisions. GSDP for construction has gone down by Rs. 40 crores, electricity, gas and water supply by Rs. 23 crores and transport and communication by 8 crores whereas the estimates of public administration and other services have been revised upward by Rs. 35 crores and Rs. 15 crores respectively. The estimates at NSDP also show similar revisions.

9.11 Revised Estimates at Constant (1993-94) Prices

The estimates of SDP and per capita SDP at **constant** (1993-94) **prices** and the corresponding growth rates have also undergone downward revisions due to use of (a) revised data at current prices and (b) appropriate deflators/physical indicators.

For example in public administration and other services the indicator was not used properly. The constant price estimates were prepared at the previous year prices instead of at the base year prices of 1993-94. For example the estimates at constant prices for the year 1998-99 were prepared at 1997-98 prices instead of at the base year prices of 1993-94.

This defect has now been rectified and the current price estimates for public administration and educational and medical services within the other services have been deflated by the Consumer Price Index of Sikkim. This has resulted in a downward revision of the estimates of public administration and other services at constant prices. The estimates at constant prices earlier were prepared only up to 2001-02. The estimates at constant prices have now been worked up-to 2004-05 as in the case of estimates at current prices. Thus the lag between the current and constant prices has been bridged.

As a consequence of these revisions the overall estimates GSDP at constant prices of 1993-94 for 2001-02 have been revised downward by Rs. 67 crores and the per capita GSDP has been revised downward by Rs. 1210 refer to Statement 6.1. The per capita GSDP at constant prices for 2001-02 is Rs. 11405 as compared to Rs. 12615 estimated earlier. The revised average growth rate at constant prices for period 1993-94 to 2001-02 is 6.11 percent as compared to 8.06 percent in the earlier estimates. For the period 1993-94 to 2004-05 the revised average growth rate at constant prices is 6.7 percent. The NSDP at constant prices for 2001-02 has also been revised accordingly.

At the industry level the comparative estimates of GSDP at constant (1993-94) prices (revised and pre-revised) are given in Statement 6.4 for 1993-94 and 2001-02. The overall estimates of GSDP for 2001-02 have been revised downward by Rs. 40 crores. The estimates for 2001-02 have gone down in respect of agriculture by Rs. 21 crores, construction by Rs. 17 crores, trade, hotels and restaurant by Rs. 17 crores and other services by 28 crores whereas the estimates of electricity, gas and water supply have been revised upward by Rs. 9 crores. The estimates of NSDP also show similar revisions.

9.12 Suggestions/Recommendations

The allocation procedure used by the NAD for expenditure on construction of the central NDCUs and DCUs and central government offices in Sikkim during the year has been lately resulting in erratic, negative and abnormally high figures of expenditure on construction for smaller states including Sikkim. As a result the SDP estimates of Sikkim are unduly over estimated. Following steps need to be taken:

- The NAD may be approached by the State Government to suitably change the procedure and make available revised figures of expenditure on construction for the central NDCUs, and
- revise suitably the Comparable Estimates of SDP for Sikkim, currently under finalization by the NAD.

For reliable estimates of construction it is suggested that actual data on expenditure on construction incurred by the units of central/state undertakings, such as NHPC, Border Road Organization (BRO), Central Public Works Department (CPWD), etc. operating in Sikkim may be collected annually by the SIU from their units and used for estimation of SDP from construction.

For the central government administration and central departmental commercial undertakings (DCUs) expenditure on construction, available with the state offices of the Central Public Works Department and Border Road Organization located at Gangtok may be collected annually by the SIU and used.

As per the practice followed by other state DES the annual estimates of SDP both at current and constant prices may be published annually in the form of a Brochure on State Income of Sikkim.

Table 46 COMPARATIVE STATEMENT OF REVISED AND PRE-REVISED ESTIMATES OF GSDP OF SIKKIM

Years	GSDP (Rs. Lakhs)		Growth (%)		PCI (Rs.)		Growth (%)		Population (Lakhs)	
	R	**PR**	**GSDP (R)**	**GSDP (PR)**	**R**	**PR**	**PCI (R)**	**PCI (PR)**	**R**	**PR**
At Current Prices										
1993-94	39282	37743			9072	8457			4.33	4.46
1994-95	42798	40277	8.95	6.71	9639	8714	6.25	3.04	4.44	4.62
1995-96	50622	48130	18.28	19.50	11101	10056	15.17	15.40	4.56	4.79
1996-97	57011	55262	12.62	14.82	12156	11141	9.50	10.70	4.69	4.96
1997-98	65264	65106	14.48	17.81	13512	12644	11.16	13.49	4.83	5.15
1998-99	76474	78184	17.18	20.09	15356	14652	13.65	15.88	4.98	5.34
1999-00	83051	84003	8.60	7.44	16158	16343	5.22	11.54	5.14	5.14
2000-01	94009	97634	13.19	16.23	17671	18352	9.36	12.29	5.32	5.32
2001-02	105778	113925	12.52	16.69	19163	20639	8.44	12.46	5.52	5.52
2002-03	119873	125135	13.32	9.84	21521	22466	12.31	8.85	5.57	5.57
2003-04*	134729	135818	12.39	8.54	23595	23786	9.64	5.88	5.71	5.71
2004-05**	150633		11.80		25749		9.13		5.85	5.85
Average growth upto 2003-04			13.15	13.77			10.07	10.96		
Total average growth			13.03	13.77			9.98	10.96		
At Constant Prices										
1993-94	39282	37743			9072	8457			4.33	4.46
1994-95	39392	37183	0.28	-1.48	8872	8045	-2.20	-4.87	4.44	4.62
1995-96	43039	41122	9.26	10.59	9438	8592	6.38	6.80	4.56	4.79
1996-97	45647	45630	6.06	10.96	9733	9200	3.12	7.07	4.69	4.96
1997-98	49087	52002	7054	13.96	10163	10099	4.42	9.78	4.83	5.15
1998-99	52822	57983	7.61	11.50	10607	10866	4.37	7.59	4.98	5.34
1999-00	54556	59583	3.28	2.76	10614	11592	0.07	6068	5.14	5.14
2000-01	58374	64213	7.00	7.77	10973	12070	3038	4.12	5.32	5.32
2001-02	62955	69635	7.85	8.44	11405	12615	3.94	4.51	5.52	5.52
2002-03	69431		10.29		12465		9.30		5.57	5.57
2003-04*	75031		8.07		13140		5.42		5.71	5.71
2004-05**	80056		6.70		13685		4.14		5.85	5.85
Average growth upto 2001-02			6.11	8.06			2.93	5.21		
Total average growth			6.72	8.06			3.85	5.21		

Note: * PROVISIONAL ESTIMATES AND ** QUICK ESTIMATES
(R) - Revised Estimates, (PR) - Pre Revised Estimates

Table 47 COMPARATIVE STATEMENT OF REVISED AND PRE-REVISED ESTIMATES OF NSDP OF SIKKIM

years	NSDP (Rs. Lakhs)		GROWTH (%)		PCI (Rs.)		GROWTH (%)		POPULATION (Lakhs)	
	R	**PR**	**NSDP (R)**	**NSDP (PR)**	**R**	**PR**	**PCI (R)**	**PCI (PR)**	**R**	**PR**
					AT CURRENT PRICES					
1993-94	35456	33694			8188	7550			4.33	4.46
1994-95	38312	35570	8.06	5.57	8629	7696	5.38	1.94	4.44	4.62
1995-96	45394	42620	18.48	19.82	9955	8905	15.37	15.71	4.56	4.79
1996-97	51044	49111	12.44	15.23	10884	9901	9.33	11.19	4.69	4.96
1997-98	58567	58308	14.74	18.73	12126	11324	11.41	14.37	4.83	5.15
1998-99	68974	70209	17.77	20.41	13850	13158	14.22	16.19	4.98	5.34
1999-00	74456	75818	7.95	7.99	14486	14751	4.59	12.11	5.14	5.14
2000-01	84583	88623	13.60	16.89	15899	16658	9.76	12.93	5.32	5.32
2001-02	95057	103899	12.38	17.24	17220	18822	8.31	12.99	5.52	5.52
2002-03	107615	113941	13.21	9.67	19321	20456	12.20	8.68	5.57	5.57
2003-04*	121247	123258	12.67	8.18	21234	21586	9.90	5.52	5.71	5.71
2004-05**	135736		11.95		23203		9.27		5.85	5.85
AVERAGE GROWTH UPTO 2003-04			13.13	13.97			10.05	11.16		
TOTAL AVERAGE GROWTH			13.02	13.97			9.98	11.16		
					AT CONSTANT PRICES					
1993-94	35456	33694			8188	7550			4.33	4.46
1994-95	35279	32874	-0.50	-2.43	7946	7113	-2.96	-5.79	4.44	4.62
1995-96	38710	36533	9.72	11.13	8489	7633	6.84	7.32	4.56	4.79
1996-97	41068	40851	6.09	11.82	8756	8236	3.15	7.90	4.69	4.96
1997-98	44217	46984	7.67	15.01	9155	9125	4.55	10.79	4.83	5.15
1998-99	47683	51575	7.84	9.77	9575	9666	4.59	5.92	4.98	5.34
1999-00	48951	52683	2.66	2.15	9524	10250	-0.54	6.04	5.14	5.14
2000-01	52247	56941	6.73	8.08	9821	10703	3.12	4.43	5.32	5.32
2001-02	56251	62002	7.67	8.89	10190	11232	3.76	4.94	5.52	5.52
2002-03	61995		10.21		11130		9.22		5.57	5.57
2003-04*	67092		8.22		11750		5.57		5.71	5.71
2004-05**	71669		6.82		12251		4.27		5.85	5.85
AVERAGE GROWTH UPTO 2001-02			5.99	8.05			2.81	5.19		
TOTAL AVERAGE GROWTH			6.65	8.05			3.78	5.19		

* PROVISIONAL ESTIMATES AND ** QUICK ESTIMATES
(R) - Revised Estimates, (PR) - Pre Revised Estimates

Tsble 48 GROSS STATE DOMESTIC PRODUCT AT FACTOR COST BY INDUSTRY OF ORIGIN

(Rs. Lakhs)

Industry of Origin	1993-94 R	1993-94 PR	DIFFE-RENCE	2003-04 R	2003-04 PR	DIFFE-RENCE
AT CURRENT PRICES						
Agriculture & Allied	11992	12309	-317	25419	25094	325
Forestry & Logging	904	785	119	2173	2124	49
Fishing	30	49	-19	80	118	-38
Mining & Quarrying	93	94	-1	156	-6	162
TOTAL PRIMARY	**13019**	**13237**	**-218**	27828	**27330**	498
Manufacturing(REG)	931	760	171	1557	1398	159
Manufacturing(UN REG)	1274	1283	-9	2205	2485	-280
Construction	5052	4121	931	30650	34673	-4023
Electricity, Gas & WS	1015	1020	-5	5720	8026	-2306
TOTAL SECONDARY	**8272**	**7171**	**1101**	40132	**46582**	-6450
Transport & Communication	887	1102	-215	4323	5128	-805
Trade Hotels & Restaurants	2996	2996	0	6797	6530	267
Banking & Insurance	514	512	2	4121	4212	-91
Real Estate ,O.D &B.S.	3460	3461	-1	10177	9629	548
Public Administration	5646	4883	763	21045	17576	3469
Other Services	4488	4381	107	20306	18831	1475
TOTAL TERTIARY	**17992**	**17335**	**657**	66769	**61906**	4863
Total State Domestic Product	**39282**	**37743**	**1539**	134729	**135818**	-1089
Population (Number)	433000	446300	-13300	571000	571000	0
Per Capita Income(Rs.)	**9072**	**8457**	**615**	23595	**23786**	-191
AT CONSTANT PRICES						
Agriculture & Allied	11992	12309	-317	11030	13156	-2126
Forestry & Logging	904	785	119	1381	1388	-7
Fishing	30	49	-19	43	67	-24
Mining & Quarrying	93	94	-1	90	24	66
TOTAL PRIMARY	**13019**	**13237**	**-218**	**12543**	**14635**	**-2092**
Manufacturing (REG)	931	760	171	994	846	148
Manufacturing (UN REG)	1274	1283	-9	1406	1417	-11
Construction	5052	4121	931	10075	11750	-1675
Electricity, Gas & WS	1015	1020	-5	4580	3651	929
TOTAL SECONDARY	**8272**	**7171**	**1101**	**17055**	**17658**	**-603**
Transport & Communication	887	1102	-215	2085	1433	652
Trade Hotels & Restaurants	2996	2996	0	3350	5074	-1724
Banking & Insurance	514	512	2	1832	1672	160
Real Estate ,O.D &B.S.	3460	3461	-1	4533	4386	147
Public Administration	5646	4883	763	11241	11618	-377
Other Services	4488	4381	107	10315	13159	-2844
TOTAL TERTIARY	**17992**	**17335**	**657**	**33357**	**37342**	**-3985**
Total State Domestic Product	**39282**	**37743**	**1539**	**62955**	**69635**	**-6680**
Population (Number)	433000	446300	-13300	552000	552000	
Per Capita Income (Rs.)	**9072**	**8457**	**615**	**11405**	**12615**	**-1210**

Table 49 NET STATE DOMESTIC PRODUCT AT FACTOR COST BY INDUSTRY OF ORIGIN

(Rs. Lakhs)

Industry of Origin	1993-94 R	1993-94 PR	DIFFE-RENCE	2003-04 R	2003-04 PR	DIFFE-RENCE
AT CURRENT PRICES						
Agriculture & Allied	11900	12217	-317	25142	24861	281
Forestry & Logging	752	589	163	1628	1575	53
Fishing	23	44	-21	64	104	-40
Mining & Quarrying	61	76	-15	119	-28	147
TOTAL PRIMARY	**12736**	**12926**	**-190**	26953	**26512**	441
Manufacturing(REG)	831	681	150	1365	1355	10
Manufacturing(UN REG)	1235	1210	25	2075	2408	-333
Construction	4842	3918	924	29130	33339	-4209
Electricity, Gas & WS	94	108	-14	3134	5262	-2128
TOTAL SECONDARY	**7102**	**5917**	**1185**	35895	**42364**	-6469
Transport & Communication	448	538	-90	2098	3497	-1399
Trade Hotels & Restaurants	2746	2746	0	6099	5921	178
Banking & Insurance	485	510	-25	3973	4076	-103
Real Estate ,O.D &B.S.	3078	3079	-1	9040	8533	507
Public Administration	4842	4079	763	18539	15481	3058
Other Services	4019	3899	120	18650	16874	1776
TOTAL TERTIARY	**15619**	**14851**	**768**	58399	**54382**	4017
Total State Domestic Product	**35456**	**33694**	**1762**	121247	**123258**	-2011
Population (Number)	433000	446300	-13300	571000	571000	0
Per Capita Income(Rs.)	**8188**	**8457**	**-269**	21234	**21586**	-352
AT CONSTANT PRICES						
Agriculture & Allied	11900	12217	-317	10902	13030	-2128
Forestry & Logging	752	589	163	1127	1083	44
Fishing	23	44	-21	35	60	-25
Mining & Quarrying	61	76	-15	61	20	41
TOTAL PRIMARY	**12736**	**12926**	**-190**	12125	**14193**	-2068
Manufacturing(REG)	831	681	150	865	758	107
Manufacturing(UN REG)	1235	1210	25	1335	1279	56
Construction	4842	3918	924	9384	11013	-1629
Electricity, Gas & WS	**94**	**108**	**-14**	3217	**2216**	1001
TOTAL SECONDARY	**7102**	**5917**	**1185**	14930	**15266**	-336
Transport & Communication	448	538	-90	1166	320	846
Trade Hotels & Restaurants	2746	2746	0	2921	4635	-1714
Banking & Insurance	485	510	-25	1767	1603	164
Real Estate ,O.D &B.S.	3078	3079	-1	3947	3826	121
Public Administration	4842	4079	763	9911	10030	-119
Other Services	4019	3899	120	9484	12129	-2645
TOTAL TERTIARY	**15619**	**14851**	**768**	29197	**32543**	-3346
Total State Domestic Product	**35456**	**33694**	**1762**	56251	**62002**	-5751
Population (Number)	433000	446300	-13300	552000	552000	0
Per Capita Income (Rs.)	**8188**	**8457**	**-269**	10190	**11232**	-1042

9.13 Methodology for Estimation of Capital Formation

Importance

Annual estimates of State income or National income can be prepared by Production approach as a difference of value of output less value of inputs or Income approach as a sum of compensation of employees plus operating surplus or Expenditure Approach as a sum of -

(a) Private Final Consumption Expenditure
(b) Government Final Consumption Expenditure,
(c) Capital Expenditure on fixed assets *plus* increase in stock of goods and raw materials, and
(d) Imports minus exports from other states and abroad.

The capital expenditure incurred on fixed assets and increase in the value of stock of goods and raw materials is termed as capital formation. Thus capital formation during the year is that part of the State income which is used for creation of physical assets in the form of buildings, roads and bridges, irrigation dams, laying of pipeline for water, sanitation etc. and other construction works; machinery and equipment including transport vehicles as well as breeding livestock, dairy cattle, drought animals used for production of milk and meat and other products, ploughing of fields, transportation etc, and increase in the value of stock of goods and raw materials not consumed or used in the creation of physical assets during the year. Availability of capital formation estimates at state level provides an indicator of the magnitudes and growth of productive potential of state economy.

The estimates of capital formation over a long period are required for estimation of the capital stock of a State i.e. the wealth of a State at a point of time say 1st April, 2001 or 1st April, 2005 which is used for further production of goods and services. Thus the estimates of capital formation at state level provide an indicator of the magnitude and growth of productive potential of the State economy. The State income for a particular year is directly proportional to labour and capital used for production. Capital formation during the year divided by the State income is a measure of the rate of capital formation. The rate of capital formation for a particular State for a year or over the period of time can be compared with the similar rate of other states as well as at the national level.

For estimation of net state domestic product the consumption of fixed capital (CFC) based on the estimates of capital stock is required. Till such time the estimates of fixed capital formation for a long period of time are available the estimates of CFC can not be prepared at the state level. Presently in the absence of the estimates of fixed capital formation for Sikkim direct estimates of CFC are not available. The National Accounts Division of the Central Statistical Organisation (CSO) provides the indirect estimates of CFC to Sikkim and other states based on the allocation of the All-India CFC prepared from the estimates of capital stock at the national level. Once the estimates of fixed capital formation are prepared annually, the estimates of CFC based on the state figures can be prepared and used for state income estimation.

As per the recommendations of the RAC the Methodology for Estimation of Gross Capital Formation for Sikkim is given in the Manual (Annex 6.2)

9.14 Preliminary Estimates of Gross Fixed Capital Formation

Preliminary estimates of gross fixed capital formation (GFCF) have been prepared from 1999-00 and 2000-01 by the SIU as per the methodology and source material mentioned in the Manual on Gross Capital Formation for Sikkim. The estimation procedure is as follows.

Public Sector: The estimates of fixed capital formation are available annually from the budget documents and are given from 1999-00 to 2000-2001 separately for construction and machinery.. For the central NDCUs and DCUs the state-wise allocated figures of capital expenditure on construction for Sikkim have been supplied by the NAD. Because of the allocation problem the estimates are abnormally high, erratic and negative. The NAD has been requested by the SIU to revise their figures and also make available the figures for capital expenditure for machinery and equipment. Meanwhile data on fixed capital expenditure of NHPC has been collected from their local office. For state DCUs analysis of their accounts has been undertaken by the SIU for the years 1999-00 to 2002-03. Actual data of these NDCUs have been used.

Supra-regional sectors: The estimates of supra-regional sectors i.e. communication, banking and insurance and central government administration supplied by the NAD relate to total fixed capital formation without any breakup for construction and machinery. The NAD has been requested by the SIU to make available the breakup of fixed assets

Households: The estimates of households in respect of the following industries have been attempted:

> **Agriculture:** The estimates of agriculture for 1991-92 are based on AIDIS, 1991-92 and have been carried forward using the combined index of area under agriculture and index of wages of rural unskilled workers.
>
> **Ownership of dwellings:** The estimates of fixed capital expenditure of ownership of dwellings, mainly on construction, available from ATDIS, 1991-92 have been carried forward with the index of residential buildings in rural and urban areas separately to derive

the estimates at 1991-92 prices. The index of cost of construction has been superimposed to derive the current price estimates.

Non-farm business: In case of non-farm business the estimates from AIDIS are negligible. For **Unorganized Manufacturing** and **Transport** the estimates have been prepared from alternate sources and for **other industries**, in view of the results of AIDIS, 1991-92 the estimates of GFCF are assumed to be negligible. The results of enterprise surveys, as and when available, may be adopted.

Unorganized Manufacturing was covered in the enterprise survey of NSSO in 1994-95. The results of this Survey available from NSS Reports 434 and 435 have been used to prepare estimates for 1999-00 and 2000-01.

Transport is a growing sector in Sikkim and the transport operated by the households for commercial purposes is likely to form a major part of non-farm business. Additions to the number of commercial vehicles registered with Transport Authority in the private sector are have been evaluated at average prices to estimate the fixed expenditure on vehicles during each year.

Corporate enterprises, cooperatives and non-profit institutions serving households: For Corporate enterprises, cooperatives and non-profit institutions no data are available. The estimates of capital expenditure on residual construction relating to corporate enterprises**,** cooperatives and non-profit institutions serving households are compiled annually for estimation of SDP from construction activity. These estimates have been adopted as such. However, it is suggested that data on cooperatives and non-profit institutions can be collected and analyzed by the SIU on a regular basis.

The estimates of Gross Fixed Capital Formation of Sikkim for 1999-00 and 2000-01 are given in an earlier section. For the year 1990-00 the estimated GFCF is 297 crores and for the year 2000-01 it is 356 crores. Of which construction assets account for Rs. 248 in 1999-00 and Rs.303 crores in 2000-01 respectively and machinery and equipment Rs. 49 in 1999-00 and Rs. 53 crores in 2000-01 respectively. The Public Sector accounts for the bulk of the GFCF in Sikkim i.e. Rs. 255 crores in1999-00 and Rs. 314 crores in 2000-01-.the construction assets account for 80% and machinery and equipment 20% of GFCF of the public sector.

Table 50 Gross Fixed Capital Formation of Sikkim in 1999-00 and 2000-01

(Rs.Lakhs)

Industry of Use	1999-2000			2000-01		
	Construc-Tion	Machi-nery	GFCF	Construc-tion	Machi-nery	GFCF
1. Agriculture	66	21	87	61	36	99
2. Forestry	236	0	236	612	0	612
3. Fishery	0	0	0	0	0	0
4. Mining and quarrying	0	25	25	2	37	39
5. Manufacturing – registered	0	26	26	0	19	19
6. Manufacturing – unregistered	4	0	4	5	0	5
7. Construction	1902	325	2227	1744	310	2054
8. Electricity, gas and water	8317	3431	11748	8689	3567	12256
9. Trade, hotels and restaurant	12	7	19	0	14	14
10. Transport and communication	1653	286	1939	1291	395	1686
11. Banking and insurance	128	166	294	228	249	476
12. Real estate, ownership of dwellings and business services	2265	0	2265	2486	0	2486
13. Public administration	9188	410	9598	12452	580	13032
14. Other services	1020	224	1244	2728	96	2924
Total	**24790**	**4922**	**29712**	**30298**	**5305**	**35602**
Public Sector	**20597**	**4862**	**25460**	**26165**	**5224**	**31389**

9.15 Suggestions/Recommendations

- The estimation of fixed capital formation only, as recommended by the NAD and also in line with similar estimates being prepared by other states, may be taken up by the SIU of DESME, Government of Sikkim on an annual basis.
- The estimation of fixed capital formation on an annual basis will significantly increase the work load of the SIU. It is suggested that in view of the importance of the estimates of SDP and fixed capital formation for planning and development, the SIU may be paid special attention. The officers and staff of the SIU may be engaged mainly for collection and compilation of data from various sources, analysis of budget documents and reports of state undertaking, cooperatives etc. for estimation/improvement of these aggregates.
- The allocation procedure used by the NAD to distribute the national level estimates of fixed capital formation of central NDCUs in proportion to increase/decrease in state-wise gross block of assets during the year has been lately resulting in erratic, negative and abnormally high figures of fixed expenditure for smaller states including Sikkim. As a result the annual estimates of fixed capital formation are likely to be grossly over

estimated/under estimated. The NAD may be approached by the State Government to suitably change the procedure and provide reliable figures.

For reliable estimates of fixed capital expenditure of NDCUs and avoid dependence on the NAD it is suggested that actual data on expenditure on fixed assets incurred within Sikkim by the units of central/state undertaking operating in Sikkim may be collected by the SIU annually from their units and used for estimation of SDP from construction.

- For the central government administration and central DCUs expenditure on fixed capital, available with the state offices of the Central Public Works Department and Border Roads Organization located at Gangtok, may be collected by the SIU annually and used.
- For private sector enterprises whose operation are spread over many states, suitable procedure to derive state-wise figures of fixed capital formation will have to be devised by the NAD.
- Till such time consolidated data on fixed capital expenditure from the Cooperative Department, Sikkim become available, data on income and expenditure and on additions to fixed assets during the year for individual cooperatives need to be collected and analyzed annually on a sample basis to estimate the fixed capital formation during the year
- In order to build up the estimates of capital formation for household sector by industry of use, it would be necessary to have an adequate sample of urban households in the AIDIS.
- Attempts need to be made to collect annual information on fixed capital formation in respect of non-profit institutions engaged in various activities.

9.16 Methodology for Estimation of Saving for Sikkim

Importance

Saving represents the excess of current receipts over the current expenditure of the enterprises engaged in the production of goods and services and for the households it is the excess of current income over household final consumption expenditure during the year. Thus it is that part of the State income which is not consumed by the households or the government during the year and is equal to the capital formation during the year. Saving by type of institutions i.e. public sector – government administrative departments and public sector enterprises, private corporate sector enterprises and the households (including non-profit institutions serving households) indicates the share of each of the institutions in the saving of the State. At the national level the saving of the households constitutes 90% of the total saving. Saving of the Government is negative being (-) 6%

and that of the corporate sector 16% of the total saving. Thus the household sector is a major saver and financer of the investment in the economy. For giving fillip and to maintain the tempo of household saving, the central government from time to time announces incentives for saving by the households.

Background

The RAC in its final report (1976) submitted to the Government of India, having recognized that the state level estimates of saving are not conceptually viable or feasible because of the open boundaries of the states did not recommend compilation of the estimates by state DESs. In view of this the NAD, till date, has **not** suggested to the states to compile the estimates of saving at the state level.

Methodology

The estimates of saving of state government/departmental commercial undertaking are available annually from the analysis of budget document being undertaken by the SIU. This saving is negative. Saving of the corporate sector at state level is not available for want of state-wise details from RBI studies on corporate companies.

Direct estimates of household saving, constituting 90% of the total saving at the national level, are not available at the national/state levels. The Household Income and Expenditure Surveys in the past did not provide the direct estimates of saving at national/state level. For Sikkim **no** recent **income and expenditure survey** has been conducted.

At the national level the estimates of saving are prepared **indirectly** as investment in physical assets and financial assets. The estimates of household physical assets for Sikkim are not available as the estimates of fixed capital formation are not prepared for Sikkim. In case of financial assets data only for a few items such as bank deposits and Post Office saving and other deposits are only available. Even the breakup of deposits with the banks and post office separately for the households is not available. Moreover these deposits may not be entirely from the saving form Sikkim because of the open boundaries of the states and free flow of money across the states.

For rest of the financial assets, i.e., Currency, Shares and debentures, Net claims on government , Life insurance funds, and Provident and pension funds no state level data are available. **Hence for want of requisite data even the indirect approach adopted at national level *can not* be adopted at the state level.**

9.17 Suggestions/Recommendations

In view of the above it is proposed that estimation of saving may not be taken up by the SIU of DESM&E, Government of Sikkim till such time direct data on household saving from the Household Income and Expenditure Survey or state-wise data on physical and financial assets become available**.**

9.18 Training in State Income, Capital Formation and Saving

In order to train the officers of the Sikkim Statistical Service, and the officers and staff of the SIU a Training Workshop on State Income and related Aggregates was organized at Janata Bhavan, Gangtok from 2nd March to 15th March 2005. Besides specialized training as well as on the job training was also provided to the officers and staff of the SIU in respect of estimation of capital formation and saving for Sikkim during the course of the Project. Details of the Training Workshop are as under.

Training Workshop on State Income & Related Aggregates

The Workshop was organized at Janata Bhavan, Gangtok from 2nd March to 15th March 2005. Ninety participants from Sikkim Statistical Service working in specialized units (State Income, Sample Surveys, Prices, Data Processing, Computer Centre) of the DESME as well as from other government departments such as departments of Forestry, Fishery, Transport, Health, Environment, Rural Development attended the Workshop.

Lectures on the concepts of national/state accounts in respect of State Domestic Product (SDP), methods of estimation, forms of income/expenditure, capital formation in the form of fixed capital (i.e. construction and machinery & equipment and increase in stocks), saving in physical assets and financial instruments and estimation of State income for each of the sectors and sub-sectors were delivered.

Estimation of SDP is undertaken for each sector/sub-sector of the state economy as given below:

1. Agriculture including Animal Husbandry.
2. Forestry.
3. Fishery.
4. Mining and Quarrying.
5. Manufacturing – registered
6. Manufacturing – unregistered.
7. Construction.
8. Electricity, Gas and Water Supply.
9. Trade, Hotels & Restaurant.

10. Transport & Communication.
11. Banking & Insurance.
12. Real Estate, Ownership of Dwellings & Business Services.
13. Public Administration.
14. Other Services – Education, Medical & Health, Legal Services etc.

Comprehensive and detailed lectures explaining the coverage, method of estimation and data sources used were delivered. Practical illustrations were also demonstrated. Data sources, for various sectors such as Administrative records; censuses of population, livestock, manufacturing, agriculture; results of sample surveys of enterprises, livestock and livestock products, All India Debt and Investment Surveys, Household Consumption Surveys, Crop Cutting Experiments and other surveys, annual reports of public and private enterprises; budget documents etc., used in various sectors were also discussed.

Specialized Training for Estimation of Saving and Capital Formation

During the last phase of the project specialized training on the concepts and. methodology of estimation of SDP, saving and capital formation for systematic estimation and effecting improvements from time to time has been provided to the officers and staff of the State Income Unit. Practical on the job training has also been provided. Use of available sources of data from various departments, National Sample Survey Organization and other organizations has been demonstrated.

10. Poverty Estimation for Sikkim and Related Issues

The approach of measuring the absolute poverty line in the normative minimum calorie-intake was adopted by the Task Force on Projections of Minimum Needs and Effective Consumption Demands, accepting the calorie intake norms for fourteen age-sex-activity categories recommended by the Nutrition Expert Group (1968)**.** The official measure of poverty in India is the simplest of all the measures devised, that is, the Head Count Ratio (HCR), purporting to assess the prevalence of poverty. The measure does not tell us about the depth or severity of poverty in any region. Even so, there are several issues that torment researchers striving to estimate poverty in Sikkim. Three of them stand out clearly.

a. More than 90 percent of the population resides in rural areas and in any exercise on poverty it is the rural sector that assumes the preponderating role compared to its counterpart, the urban sector. Yet for the former there is no cost of living index. Thus, even if we arrive at poverty lines for the two sectors, it would not be possible to carry it forward from the base year because the price deflators are not available for the rural sector.

b. Household expenditure surveys, the results of which form a crucial input for poverty estimation are carried out by the National Sample Survey Organisation (NSSO) in the form of two samples, Central and State on an equal matching basis[7]. While the sample design is formulated by the NSSO, the canvassing of the schedule in the field and the processing of data relating to the State sample rest with the State Government. The latest quinquennial round that is, the 55th (1999-00) for which results are available and this pertains only to the Central sample with a sample size of 88 villages and 1056 households. If the State sample was processed in tandem with the Central sample, not only the sample size would have been twice the present by pooling the two thereby increasing the reliability of survey estimates but one could see how well the two agree, adding confidence in the results.

c. The official method of computing the consumption basket of minimum level of living for demarcating the poor from the non-poor, taking into account food, clothing, shelter and other non-food items or in other words, the poverty line is derived for all the States except a few for which either the sample size is not adequate or there are prominent data gaps. Sikkim does not

[7] Out of 453 villages, 92 sample villages are covered in the Central sample and an equal number in the State sample in the current round (61st) that has been launched in July 2004 expected to be over by June 2005. The urban areas being much less, 20 urban blocks are being surveyed through the Central sample and an equal number through the State sample.

have a state-specific poverty line. Instead, as for other north-eastern States, the Assam poverty ratio is used for estimating the number of poor.

For more than two decades, the legacy of the Assam poverty ratio handed over by the Planning Commission persists, the magnanimity of the massive NSSO to sort out smaller states' problem of the lack of capability to process the State sample data (far from attempting to re-orientate the sample design to suit the needs of the hilly states), not much in evidence while the State Government waits for things to happen.

This chapter attempts to estimate and analyse poverty based on whatever data are available within the framework specified by the official methodology. The results for the 55th round, Central sample are used. In order to understand the Sikkim data, to begin with the important results for major States and the alternate estimates by researchers are discussed in brief to have an insight with respect to the Central sample results of Sikkim. Secondly, the gap noticed in average calorie-intake over the years since the anchoring all India calorific norms of 2400 Kcal and 2100 Kcal were prescribed for rural and urban areas is discussed.

10.1 Official Poverty Estimates and Alternate Estimates

The general trend in poverty estimates based on NSS data since 1973-74 has shown a steady decline at a rate of almost one percentage point every year. The rate of decline in the nineties however, has been a matter of controversy with researchers coming out with their own adjustments. The researchers move away from the published grouped data and resort to raw data as the former assumes that households are uniformly distributed in each expenditure class which may not be true. For some, the updating of the poverty line implies the use of weights that are fixed and outdated and corrections on that account were made. The focus of controversy however, is the latest year for which the Planning Commission brought out the poverty estimates that is, for the 55th round of NSS or 1999-2000 where for the food group two alternative recall periods of 30-days and 7-days were used among the same set of households and recorded in blocks side by side.

But for items like clothing, footwear, durables etc., information was collected only on the basis of a recall period of 365 days. Thus while 1999-00 poverty estimates are based on a mixed reference period (MRP) of 30 and 365 days, in all earlier rounds, a uniform reference period (URP) of 30 days was used. Adjustments using unit record data were made (Table 51). Except for a few States, D2 and ST (MRP) give much higher poverty ratios or in other words the adjustment for recall period goes to increase the poverty ratio in comparison to the official estimate.

Table 51: Poverty Head Count Ratio: Alternative Estimates, 1999-00, Rural

State	Poverty Ratio					
Andhra Pradesh	262.94	11.03	26.2	10.5	14.9	22.01
Assam	365.43	40.04	35.5	40.3	44.1	53.41
Bihar	333.07	44.30	41.1	44.0	49.2	51.49
Gujarat	318.94	13.17	20.0	12.4	15.4	18.89
Haryana	362.81	8.27	5.7	7.4	12.7	7.83
Karnataka	309.59	17.38	30.7	19.8	25.7	24.09
Kerala	374.79	9.38	10.0	9.4	12.6	16.47
Madhya Pradesh	311.34	37.06	31.3	37.3	36.4	32.93
Maharashtra	318.63	23.72	31.9	23.2	29.2	37.65
Orissa	328.92	48.01	43.0	47.8	47.3	56.27
Punjab	362.68	6.35	2.4	6.0	5.9	8.73
Rajasthan	344.03	13.74	17.3	13.5	19.6	11.39
Tamil Nadu	307.64	20.55	24.3	20.0	19.9	27.69
Uttar Pradesh	336.88	31.22	21.5	31.1	33.7	25.5
West Bengal	350.17	31.85	21.9	31.7	37.1	44.18
All India	327.56	27.09	26.9	27.0	30.2	31.86

Source: Planning Commission (1997), Deaton & Dreze(2002), Deaton(2003) and Sundaram and Tendulkar (2003).

Notes: D&D refers to estimate by revising the PL poverty line as well as adjusting for recall periods; D1 refers to estimate by Deaton using the unit records; D2 refers to estimate by Deaton adjusting for recall periods(30 days instead of 7 days); ST(MRP) refers to estimate by Sundaram and Tendulkar using mixed record period of 30 days and 365 days using unit record data.

10.2 Decline in Average Calorie Intake

The Task Force methodology favoured the calorific norm in preference to the minimum normative food basket for anchoring the absolute poverty line, the minimum requirements constructed for people of different sexes, ages and activities followed by estimation of the consumption basket used to attain these calorie intakes and their corresponding per capita total expenditure. The level of average calorie intake of 2400 calories for the rural sector for example, is not however, assured once the mechanism of updating and forwarding this poverty line (1973-74) on the basis of price indices is adopted. In fact, in the 27th round (1972-73), the all India average calorie intake was 2266 Kcal much less than 2400. It declined progressively thereafter, taking values 2221, 2153 and 2149 during 38th (1983), 50th (1993-93) and 55th round (1999-2000) respectively.

Using the State-specific poverty lines (PL) for 1999-2000 and per capita intake of calorie by MPCE classes (NSS Report No.471, 55th round), the upper limit of the calorie intake corresponding to the PL for major States is given below (Table 52).

Table 52 Some Selected Estimates Relating to Calorie Intake and Poverty in Rural Sector: 1999-2000

State	PL (Rs.)	Calorie intake less than	Head Count Ratio (%)	
			official	consuming 2400 cal*
Andhra Pradesh	262.94	1662	11.1	80.7
Assam	365.43	1767	40.0	96.5
Bihar	333.07	1977	44.0	74.9
Gujarat	318.94	1684	13.2	80.5
Haryana	362.81	1745	8.3	55.1
Karnataka	309.59	1646	17.4	78.9
Kerala	374.79	1389	9.4	81.2
Madhya Pradesh	311.34	1888	37.1	78.4
Maharashtra	318.63	1780	23.7	83.3
Orissa	328.92	2117	48.0	74.6
Punjab	362.68	1712	6.4	62.8
Rajasthan	344.03	2003	13.7	56.7
Tamil Nadu	307.64	1543	20.6	86.5
Uttar Pradesh	336.88	1990	31.2	64.5
West Bengal	350.17	1935	31.9	75.6

Source: NSS Report No.471 & Planning Commission
Note: * Source for this column except Assam : Meenakshi and Vishwanathan (2003)

The average calorie intake for the rural minimum consumption basket in 1999-2000 ranged from 58% in Kerala to 88% in Rajasthan taking 2400 as the norm. Whether this fall in the intake of calories is for real or due to the particular method of price adjustment? In the former case, the poverty line has to go up and for the latter, some explanation is warranted for the intrinsic factors in the adjustment procedure that go to lower the per capita total expenditure taken as the adjusted poverty line? Or over the three decades, have the average calorific needs come down? This indeed warrants a fresh exercise from the ICMR in revising the old norms. In any case, the prominent increase in the poverty ratio that is, the Head Count Ratio can be seen if we go by the average calorific norm of 2400 calories as against the official poverty ratio. In justification of this huge unbelievable divergence, the official explanation could be that the norm of 2400 calories was only the anchoring input for nutrition to derive the minimum basket of consumption; in later years it is the basket that undergoes change whatever be the calorie intake. The fact remains that calorie intake has gone down and for the states not having their own official poverty line, some such concept as minimum calorie norm may have to be evolved for estimating poverty. We shall come to this topic in a later section.

10.3 Official Poverty Ratio for Sikkim - An Appraisal

Based on the Modified Expert Group recommendations, the Planning Commission brought out the poverty ratio for all States excluding a few. For all the north-eastern States for reasons ranging from data gaps to small sample size, the poverty ratio for Assam is used to calculate the number of persons below poverty line.

Table 53 Number and Percentage of Population Below Poverty Line in Sikkim From 1973 to 1999

Year	Rural		Urban		Combined	
	No.of persons (million)	Per cent	No. of persons (million)	Per cent	No. of persons (million)	Per cent
1973-74	0.11	52.67	0.010	36.92	0.118	50.86
1977-78	0.14	59.82	0.013	32.71	0.154	55.69
1983	0.12	42.60	0.010	21.73	0.134	39.71
1987-88	0.13	39.35	0.004	9.94	0.135	36.00
1993-94	0.18	45.01	0.003	7.73	0.184	41.43
1999-00	0.20	40.04	0.004	7.47	0.205	36.55

Source: Planning Commission.

It is seen that for rural Sikkim, the poverty ratio increased initially but decreased thereafter to record again, an increase in 1993-94 to come down to 40% in 1999-00. The number of poor over the span increased from 0.11 million to 0.20 million. The rate of decrease in urban poverty both as proportion and in absolute terms has slowed down. The application of Assam's poverty ratio has disadvantaged the state. We propose to go into this issue based on the 55th round Central sample results but the adjustments of the official estimate for Assam provided in Table 51 give us a range 35.5% to 53.4% of HCR for 1999-00.

10.4 Estimation by Proxy

The crucial input for arriving at the poverty line for any State is the NSS household consumer expenditure survey results but for Sikkim the NSS data are not used as there is no state-specific poverty line. Instead the poverty ratio for Assam is used without looking into the differences in the distribution of number of persons by monthly per capita expenditure classes (MPCE) of the two States.

As Table 54, given below based on the Central sample results of 55th round shows, there is a relative shift in the distribution in Sikkim towards the higher MPCE classes as compared to Assam. This implies that price level remaining the same, the level of consumer expenditure is higher in Sikkim as compared to Assam. We proceed to examine the issue of using Assam poverty ratio further from the Sikkim distribution using simple interpolation to calculate the poverty line during 1999-2000 for Sikkim.

Table 54 Per Thousand Distribution of Persons by MPCE Class for Rural and Urban Sectors of Assam, Sikkim and Manipur, 1999-2000 (55^{th} Round,NSS)

	Rural			***Urban***		
MPCE	**number per 1000 persons**			**number per 1000 persons**		
Class (Rs.)	**Assam**	**Sikkim**	**Manipur**	**Assam**	**Sikkim**	**Manipur**
000-225	58	11	7	43	26	0
225-255	53	10	2	36	23	5
255-300	97	47	35	87	38	68
300-340	112	92	40	165	59	157
340-380	129	84	104	72	79	162
380-420	119	146	141	107	103	178
420-470	124	135	129	89	143	205
470-525	96	96	108	94	139	97
525-615	106	133	167	100	127	44
615-775	72	134	171	124	168	69
775-950	24	51	51	39	69	7
>950	11	60	46	43	26	8
All classes	1000	1000	1000	1000	1000	1000

Source: NSS Report No.457

Using the Assam poverty ratio of 40%, the poverty line for Sikkim comes to be Rs.425, the highest among all States in India. Notwithstanding relative affluence in Sikkim, the poverty line vouches for the highest cost of the minimum basket of consumption. This could be a matter of concern for the Government but unfortunately, cannot be checked in absence of any comparable price statistics for Sikkim.

The Assam poverty line for the base year gets updated to yield poverty ratios for later years for Assam as well as Sikkim. The official poverty ratio for Sikkim therefore, cannot be deemed to have an associated poverty line.

10.5 D-G Estimates

Dubey and Gangopadhyay have provided poverty estimates for all Indian States from raw data for the 43^{rd} (1987-88) and 50^{th} (1993-94) rounds including Sikkim and Manipur(for which relevant price data are available). It is not understood why the estimate for Manipur was not furnished by the Expert Group; a possible reason could be the small sample size for the NSS consumer expenditure surveys for Manipur. Whatever be the reason, D-G used the price level of rural Manipur and urban Meghalaya to compute the HCR for Sikkim adopting six different approaches and the limitation of small sample size still holds good. Nevertheless, D-G exercise is the only instance where Sikkim is vested with a state-specific poverty line, albeit Manipur poverty line for the rural and the Meghalaya for the urban computed from the raw data of NSS consumer expenditure surveys of 43rd and 50th rounds and they merit quoting.

Table 55 D-G Poverty Lines (Rs.) for rural and urban Sikkim

Approach	Rural		Urban	
	1987-88	**1993-94**	**1987-88**	**1993-94**
OPL	134.75	253.08	139.57	252.65
EOPL	127.44	239.35	140.45	254.24
APL	117.15	220.02	122.88	222.45

The results for three approaches are given below.

Table 56 Head Count Ratio for Sikkim According to Dubey-Gangopadhyay (1998)

Approach	Rural		Urban		Combined	
	1987-88	**1993-94**	**1987-88**	**1993-94**	**1987-88**	**1993-94**
OPL	49.30	40.24	14.69	3.39	42.99	37.31
EOPL	41.00	33.58	14.69	3.39	36.21	31.12
APL	30.68	27.36	5.49	0.96	26.09	25.26

The OPL is the poverty line based on official norm and updated using disaggregated price adjustment suggested by Minhas et al (1988). The EOPL too based on the official norm is updated by price adjustment suggested by the Expert Group (1993). APL is based on the alternative norm (Dandekar and Rath) but updated using adjustment suggested by Minhas et al. Three points to be noted in respect of D-G estimates for Sikkim are therefore, (a) use of rural Manipur price level and urban Meghalaya price level, (b) use of raw data of NSS rounds and not the classified published data, and (c) use of census population as weights. D-G estimate of EOPL for 1987-88 is taken from the official modified Expert Group while for 1993-94 is computed by assuming that the ratio of EOPL to OPL in the two years remain unchanged that is, the EOPL for 1993-94 is the product of OPL in 1993-94 and the ratio of EOPL to OPL in 1987-88.

It is seen that the different approaches provide different values of HCR, OPL showing the highest value of 42.99 in 1987-88 declining to 37.31 in 1993-94 compared to the official estimates based on Assam poverty ratio that is, 36.00 (1987-88) increasing to 41.43 (1993-94) given in Table 53. Thus apart from the varying estimates, the trend gets reversed. The other approaches yield much lower values compared to the official estimates except 1987-88 HCR under EOPL.

In Table 54 we now compare the size distributions of Sikkim and Manipur just as we did for Assam. It is seen that contrary to what we observed for Assam, it is now the Manipur distribution that shows a shift towards the higher MPCE classes compared to Sikkim; the use of Manipur poverty line would therefore, overestimate Sikkim poverty ratio. D-G estimates are not available for 1999-2000. Since the latest year for which both sets are available is 1993-94 we prefer to compare the official estimate (based on Assam poverty ratio) for the year with D-G estimate as given by OPL (Manipur/Meghalaya), as EOPL is the same as given by the Expert Group. It may therefore, be mentioned that **during 1993-94 the range of Sikkim poverty ratio could have been between 37.31%(Manipur/ Meghalaya-based) and 41.43% (Assam-based), perhaps nearer to the Manipur estimate** (in fact for urban areas, D-G used Meghalaya prices but the rural weight is preponderating) because of the relative nearness of Sikkim and Manipur size distributions than Sikkim and Assam. For the rural areas, this range is seen to be roughly 40% to 45%.

Although the range of the poverty ratio as in 1993-94 is specified, the above analysis shows that poverty estimation by proxy via Assam or Manipur/ Meghalaya is not convincing. At best we can have a range within which the Sikkim poverty ratio probably lay during 1993-94. And the main reason for not having any state-specific poverty line for Sikkim is the absence of relevant price statistics in the State, missing out on the Labour Bureau network.

Further to the range of the rural Sikkim poverty ratio that is, 40% to 45% in 1993-94, if we take Assam as proxy, given in Table 51 earlier suggests that **the poverty ratio for Sikkim could be between 35.5% and 53.4% in 1999-00 for rural areas.**

10.6 Bias in D-G Estimates

D-G estimates of HCR are derived from the use of proxy-state poverty lines on the raw data on consumer expenditure of Sikkim in contrast to the use of HCR as such of proxy state by Planning Commission. This is an important point to be noted as there is no bias in official estimates while D-G estimates have an upward bias. Looking at Sikkim and Manipur size distributions, it is clear that the central tendency measures for the latter have higher values compared to the former. Even the use of raw data cannot hide this feature. If z^* is the poverty line for Sikkim (which has eluded us so far) and z_1 the poverty line for Manipur (proxy state), then

$$z_1 \geq z^*$$

If $P(z_1, z^*)$ = the population contained between z_1 and z^* and N, the total population, bias in HCR is given by $P(z_1, z^*) / N$

10.7 The BPL Census

We have seen that Sikkim does not have an acceptable poverty ratio though it could have been anywhere between 37% and 41% during 1993-94. The direction in which the ratio for the State moved after 1993-94, is a matter for further investigation. Whether the declining trend between 1987-88 and 1993-94 as revealed by D-G estimates is carried forward can only be known by obtaining the poverty line for 1999-2000 with the help of the 55th round data and the methodology outlined by the Task Force (1979). While we would come to this topic in a later section, our aim is to see and examine other exercises relating to poverty estimation. The poor should be identified and whatever little can be done should be the aim of any welfare state. And for this purpose, the Below Poverty Line Census in Sikkim is conducted by the Department of Rural Development in the beginning of each Plan period on the lines of the countrywide census launched by the Central Ministry of Rural Development. It has the objectives of identifying and targeting the BPL persons under various programmes of the Ministry. The unit of enumeration is however, the household and not the person.

Methodologically, the name BPL Census (2002) as it connotes the households below poverty line, does not go by any poverty line and hence is a misnomer. Even the particulars of income collected in 1992 or those of expenditure in 1997 were given up in the 2002. Since 1992 there have been drastic changes in the methodology so far as the selective criteria are concerned and hence the lack of comparability between one census aggregate and that of the succeeding one. The upper limit of the poor for the State is fixed by the Planning Commission with the details of identifying villages, communities, blocks for targeting so far as specific anti-poverty schemes are concerned left to the State. The task is onerous but the use of the manifold criteria and the ranking of households based on the combined score leaves many loopholes for a non-poor to get included among the poor besides the absence of any sense of logic in the scoring pattern suggested. One should not therefore, attempt to look at the number of poor as obtained from the BPL Census as a yardstick for measuring poverty.

10.8 Why BPL Census Cannot Provide an Estimate of Poverty?

The revised methodology of BPL Census 2002 takes into account 13 attainable socio-economic parameters, namely operational holding of land, housing, clothing, food security, sanitation, ownership of consumer durables, literacy, labour force, means of livelihood, status of children, type of indebtedness, migration and nature of assistance preferred for assessing the poverty level of each rural household. A score from 0 to 4 is to be assigned to every household in respect of each of the indicators. Aggregating the score for each household one would know the relative positioning of the household in a village. As Sundaram (2003) observes ` many of the thirteen indicators have no clear link with deprivations either in the capability space or in regard to consumption of goods and services serving as proxies for such deprivations.' Secondly, `the procedure of simple aggregation of scores establishes in effect, cardinal equivalence across what are essentially ordinal rankings of alternative states of households in respect of individual indicators.' `In fact in seeking to combine in a single measure several facets of deprivation, the notion of a hierarchy of basic needs is abandoned. There could be the absurd situation of a score of zero for non-ownership of any consumer durable seen as an extreme deprivation at par with `having less than one square meal per day for major part of the year'. A sharecropper was treated on par with the actual owner; no distinction was made in regard to quality of land, an un-irrigated plot in Rajasthan taken to be the same as one in the fertile land of Bihar.

Further, the ranking on the aggregate score of rural households is not called for programmes addressing deprivations that are universal in scope like illiteracy, lack of sanitation, safe drinking water. Equally irrelevant are these rankings for some key employment programmes like JGSY and EAS that are focused on locations of need and not at individual households. The ranking of households with respect to food security gets vitiated in the hotch-potch of ranking done on the basis of 13 indicators and is utterly useless for programmes of Antyodaya and Annapoorna. The major anti-poverty programme SGSY focused on alleviation of income-poverty cannot be monitored or evaluated because of non-inclusion of per capita expenditure of households as one of the indicators (Sundaram,2003).

The information from the question relating to `Preference of Assistance' cannot be used either for the wage-employment programme or the targeted public distribution system as the two are clubbed together. No wonder, the Food and Supplies Department of the Government of Sikkim has its own set of criteria to identify the beneficiaries.

10.9 Poverty Ratio through Complete Enumeration (Economic Survey 1999)

We have seen that estimation by proxy does not lead us to have meaningful conclusions about the poverty status in Sikkim. Also, the much- publicized BPL Census fails to give us an alternative estimate about poverty. In a quick survey completed within 100 days (Economic Survey) employing 1000 enumerators and 300 supervisors a door-to door enquiry was conducted canvassing among other things, an abridged schedule purported to get details of consumer expenditure of the households. While this turned out to be an aborted exercise, the lessons are instructive. First, survey taking is never to be done in a hurry. Second, the investigators need screening before training and asking them to go to the field. Third, the design of the questionnaire should be done in such a way so as not to sow the seeds of non-sampling errors at the very outset. Finally, one has to be less ambitious in increasing the number of items of information especially when the survey organizers do not have very skilled personnel. Given the limited skill available in respect of survey taking, the first question that arises is whether there is the need to take up a complete enumeration when the filled –in schedules of the State sample of the NSS conducted year after year go a begging. If the Central sample results are not to be trusted and the State sample data are not processed due to limited data processing capability and utter dependence on the Data Processing Division of the NSSO, whether we should go for a fresh sample survey, designed to cater to the needs of the State. We shall come to these questions in a later section. Before that, the immediate need is to arrive at a point estimate.

10.10 Price Statistics

Before we move over to the point estimation of poverty, it would be in the fitness of things to outline the importance of price statistics for Sikkim.

For the new series of Consumer Price Indices of Agricultural Labour and Rural Labour with base 1986-87=100 for all the 20 states (Sikkim not there) and All India, Labour Bureau has derived the weighting diagram from the consumer expenditure data based on the Central Samples collected by NSSO during the 38th round conducted in 1983. It is important therefore, for price adjustments and future updating that the cost of living studies be undertaken by the Government of Sikkim to arrive at the Consumer Price Indices in the rural sector for the different segments of population and for different regions. A suitable base year for cost of living may also be thought of. Similarly, though for urban areas Sikkim has its own mechanism for getting the Consumer Price Index for Industrial workers with 1982 as base, the family living survey based on a sample of 216 households providing the weighting diagram, there is no center in the scheme of 70 centers selected for construction of Consumer Price Indices for Industrial workers with base 1982=100 by the Labour Bureau for which the weighting diagram is based on average consumption expenditure of the working class family as revealed by the Family Income and Expenditure Survey conducted during 1981-82. The Labour Bureau may be requested to include Sikkim within the purview of its urban network by providing a center or two.

The main deficiency of the price statistics even for major states is that the data- base of price indices for a disaggregated study is not quite satisfactory. Those available relate to specific segments of the population for example, for the rural sector Consumer Price Indices for agricultural labour (CPIAL) at State level and CPIIW and CPINM respectively for industrial workers and non-manual employees for the urban sector. Minhas et. al. (1988) constructed CPITR and CPITU for the total rural and total urban population with two base years 1960-61 and 1970-71 for the first time. The computation of CPIMR and CPIMU for the middle range population that is relating to the fractile groups around the poverty line for different States was an innovative idea for appropriate price adjustment. Moreover, in order to use the quinquennial rounds of the NSS, the same were developed for the years 1970-71, 1972-73, 1973-74, 1977-78, 1983 and 1987-88 also. Further, for the years 1960-61, 1970-71 and 1983 they constructed the state-specific price indices relative to all India for the middle range.

From the above facts, it can easily be seen that the data gaps in the field of price statistics are many as the price indices constructed by Minhas et. al. and used by researchers are not available for Sikkim. Unless the gaps are filled, it would be difficult to update and forward the poverty line of the base year even if the same is arrived at for say, the year 1999-2000 using the 55th round data of the Central sample and the methodology specified by the Task Force (1979). The poverty line once arrived at has to be updated to find the real changes in the poverty ratio over time, to see whether the efforts of the Government in pursuing the anti-poverty measures have borne some fruits or not. A well-contemplated plan has to be drawn up for achieving the objective of creating the relevant data base and concerted effort to fill up the gaps initially by concentrating on the rural sector as we have to start from zero. The existing cost of living indices for the urban sector may increase the coverage by including the non-manual employees.

10.11 Point Estimation of Poverty Line

We have seen that the main hindrance in formulating a poverty line for Sikkim is the absence of required cost of living indices, even if we go for using any other State poverty line of 1973-74 as proxy. The poverty line cannot be updated by using relevant price deflators weighted by appropriate consumption basket, as is done by the Planning Commission to protect the `purchasing power' with reference to the base year. We have also observed that estimation by proxy whether it be Assam or Manipur/Meghalaya, the dissimilarities in the size distributions make the resulting poverty ratio more of cosmetic value. The only other alternative is to obtain a poverty line by using data from the consumer expenditure survey by adopting appropriate calorie norms.

The alternative lies in arriving at a point estimate for the year 1999-2000 or in other words we take the base year as 1999-2000 and use the 55th round Central sample data and the Census data for obtaining the poverty line a la Task Force methodology. The following describes the exercise done to arrive at the average calorie norms for rural and urban sectors of Sikkim.

10.12 Methodology for Obtaining Average Calorie Intake and Data Sets

a. The detailed age-sex distributions for rural and urban parts of Sikkim as provided by Census 2001 are used but for children, the age-groups used by the Task Force are not available. Hence based on the grouped frequencies the percentage distributions for children are re-distributed (and also corrected for rounding off errors) to have the same number of age-groups. The reason is that the ICMR calorie norms are specified for the detailed age-groups for children.

b. The population for rural and urban sectors broken up by male and female for 2001 Census is used to calculate backwards for January 2000, the mid-point of the year 1999-2000 (55th round) based on the yearly growth rate computed from the decennial growth rate (1991-2001).

c. Using the Age-Specific-Worker-Population-Ratio obtained from the Employment & Unemployment survey of the 55th round for the age groups starting from 15 years and the age-sex distribution based on 1999-2000 aggregates, the number of workers are obtained and then the groups are collapsed into 15 + group. The complement that is, the number of non-workers is also derived.

d. Using the percentage of main workers for rural and urban sectors from Census 1991 by industrial division (the same for main + subsidiary workers for rural and urban being not available), workers by sex with the help of (c) for each industrial classification.

e. The numbers of workers as per (d) are categorized as heavy, moderate and sedentary on the basis of:

   i) Heavy - Cultivation. Agricultural Labour, Mining & Quarrying, Construction
   ii) Moderate - Livestock, forestry, fishing, hunting and plantations, orchards and allied activities, Manufacturing, processing, servicing and repairs in household industry and non household industry
   iii) Sedentary- Trade &Commerce, Transport, storage and communications, Other services.

f. Based on the above, the weighting diagrams for rural and urban sectors are separately obtained.

g. Using the calorie norms specified by ICMR for different age x sex x activity groups, the average calorie norms are obtained for rural and urban sectors separately. The weighting diagrams and the average calorie norms are shown in Table 57.

The above exercise is also done based on the Census 1991 data and two alternate average calorie norms obtained.

10.13 Results

The average calorie norm for the year 1999-2000 for rural Sikkim comes out to be 2511 Kcal from Census 2001 data and 2360 Kcal from Census 1991 data and for urban Sikkim 2141 Kcal and 2092 Kcal respectively, surprisingly in the proximity of the Task Force estimates (1979) for the year 1973-74. The year 1999-2000 being nearer to the Census 2001, we opt for the average calorie norm as 2511Kcal for the rural sector and 2141 Kcal for urban.

A little introspection may lead to the reasons why the average calorie norm for Sikkim (or for that matter, any other State) following the TF method comes so near the all India norm specified in seventies. The age-sex distribution does not undergo drastic changes over time and since old ICMR norms are used in absence of any later studies, the average calorie norms would hover around the old norms. For deriving the poverty estimate, these threshold norms are unrealistic as the bulk of the population would be taken as poor.

Table 57 Average Calorie Requirement for Rural and Urban Population of Sikkim

	Weighting Diagram				**Calorie** Norm
	Rural		***Urban***		
	2001	**1991**	**2001**	**1991**	
Children					
< 1	2	3.18	1.71	2.38	650
1 to 4	8	9.7	5.28	7.32	1200
4 to 7	6.40	7.24	447	6.60	1500
7 to 10	5.99	8.02	4.54	5.95	1800
10 to 13	8.30	7.5	7.42	6.81	2100
Adolescents (13 to 15)					
Boys	2.80	2.5	2.29	2.10	2500
Girls	2.32	2.34	2.3	1.98	2200
15+					
i) Male					
Heavy	20.93	19.75	3.35	3.51	3900
Moderate	2.17	2.05	4.68	4.91	2800
Sedentary	5.14	4.85	20.33	21.34	2400
ii) Female					
Heavy	10.46	9.03	0.77	0.62	3000
Moderate	0.44	0.38	1.35	1.09	2200
Sedentary	1.21	1.05	6.95	5.61	1900
Non-workers					
Male	9.73	5.90	12.01	8.43	2400
Female	16.96	16.51	22.69	21.35	1900
Total population	100.00	100.00	100.00	99.99	
Average calorie norm	2510.83	2360.02	2140.68	2092.03	

10.14 Minimum Calorie Intake in Rural Sikkim

This brings us to the concept of minimum calorie intake as the threshold norm which corresponds to the poverty line. The upper limits of the minimum calorie intake for major States are shown in Table 52. The fact that for all the States, the average calorific consumption has come down reflects on the changes in the consumption pattern and hence we cannot use the calorie norms of 2511(rural) and 2141 (urban) for the base year 1999-2000. We need to consider the minimum calorie-intake for determining the poverty line; the only north-eastern State for which results are available is Assam, the calorie intake corresponding to the poverty line for which is seen to be 1753 in 1999-2000 in rural and less than 1478 in urban sector**.** We may therefore, assume the minimum calorie norm for the rural sector of Sikkim to be 1753 Kcal and for the urban sector 1475 Kcal for determining a preliminary estimate of poverty line.

Table 58 Per Capita Per Diem Calorie-intake by MPCE Class, 55th round, 1999-00, Rural Sector

MPCE Class (Rs)	Calorie-intake (Kcal)		
	Assam	**Sikkim**	**Manipur**
000-225	1265	*	*
225-255	1376	*	*
255-300	1563	1607	*
300-340	1734	2442	1956
340-380	1767	1801	2704
380-420	1904	1921	3156
420-470	2084	1817	10490
470-525	2109	1859	8963
525-615	2248	1990	12776
615-775	2424	2245	13759
775-950	2730	2139	10112
>950	2803	2786	2978
All classes	1915	2024	8349
No.of sample households	3462	1056	738
No.of sample persons	19272	5173	3997

Source: NSS Report No. 471

Table 59 Per Capita Per Diem Calorie Intake by MPCE Classes, 50th round, 1993-94, Rural Sector

MPCE Class (Rs.)	Calorie-intake (Kcal)		
	Assam	Sikkim	Manipur
0-120	1095	0	53
120-140	1418	1323	1103
140-165	1509	1412	1472
165-190	1654	1541	1648
190-210	1768	1605	1741
210-235	1903	1696	1667
235-265	2000	1820	2008
265-300	2165	1877	2067
300-355	2262	2072	2319
355-455	2429	2155	2604
455-560	2628	2501	2635
560& above	2777	2474	2455
All classes	1983	1892	2157
No.of sample households	3199	480	1000
No.of sample persons	16714	2064	5465

Source: NSS Report No 405

10.15 Search for a Poverty Line for Sikkim

Till such time the ICMR prescribes minimum calorie norms for Sikkim we can use the minimum calorie norms for rural and urban sectors of Assam for determining the poverty lines. The 55th round distributions giving per capita per diem intake of calorie by monthly per capita expenditure (MPCE) classes are to be used. The distributions for the 55th and 50th rounds are given in Tables 58 and 59.

Taking the rural sector, the figures relating to 55th round (Table 58) are not provided for the first two size classes because the sample numbers (households) are less than 20. Beginning initially with 1607, there comes an unusual jump to 2442 and then the calorie intake fluctuates between 1800 and1900 Kcal up to the MPCE class Rs.470-525 and thereafter, increasing with one dip. The number of classes for which the calorie intake is provided for the urban sector is too few to interpret compounded by fluctuations without any trend. In what follows, we will confine to the rural sector. The expectation that the per capita intake of calorie is an increasing function of MPCE is belied. to make an otherwise simple exercise of finding the PL a difficult one.

Prima facie the 55th round NSS data on calorie intake for Sikkim looks suspect and no poverty line can be estimated with the help of this data. A summarized statement given below on the calorie intake versus MPCE and associated sample size for the rural sectors of all north-eastern States is provided to get further insight.

Table 60 Calorie intake in North eastern States

North-Eastern States	Sample Size (Households)	Average Calorie Intake (Kcal)	% of Calorie Intake From Cereals & Cereal Substitutes	Evidence of Increasing Calorie Intake vs MPCE
Arunachal Pradesh	827	4473	39.72	yes
Assam	3462	1915	75.92	yes
Manipur	738	8349	22.16	yes, to some extent
Meghalaya	933	1858	73.29	yes
Mizoram	428	4481	32.45	no
Nagaland	480	2398	70.89	no
Sikkim	1056	2024	67.96	no
Tripura	1031	2293	65.78	yes, ignoring humps

10.16 Adequacy of Sample Size

Except Assam, it may be observed, that the sample size is not one to inspire confidence in the results. Nevertheless, the increasing trend demonstrated in cases of Arunachal Pradesh, Meghalaya and even Tripura shows that **the sample size of 1056 households for Sikkim is not that small, as we would be inclined to think of in cases of Mizoram and Nagaland. In fact, the 50th round (1993-94) survey based on a much smaller sample of 480 households for Sikkim shows a monotonic increasing calorie intake with increasing MPCE.**

A feature to be noted is that of the widely varying composition of food intake in respect of consumption of cereals that goes to generate energy. Two-thirds of the calorie comes from the cereals and cereal products in case of Sikkim though the proportion is three-fourths for Assam against only one-third for Mizoram and a little over one-fifth for Manipur. Yet the latter set of

States report a very high average calorie intake. This indeed, makes a case for investigation into the NSS data on quantities of food items, particularly for the 55th round having both 7-day recall and 30-day recall periods side by side in the schedule (the exercises referred to in Table 51 in this respect for major States probably were restricted to obtaining adjusted pcte and its size distributions but probably leaving out average calorie intake).

A glance through the results of other States (not shown here), reveal the expected monotonic increase in calorie intake with increasing MPCE. No wonder, the Planning Commission chose to exclude the smaller States from calculation of state-specific poverty lines in addition to the lacunae in the available price statistics and instead took the poverty ratios from the proxy States. But then why such a state of affairs has been allowed to drift through decades; a little more interest would have resulted in somewhat remedying the situation.

The sampling design and in particular, the sample size prescribed for smaller States by the NSSO are issues to be tackled and not ignored. In particular, the sample size for the urban sector needs augmentation. Secondly, even though a larger sample size is possible through pooling of the Central and State samples within the survey strategy, no effort is made in this respect. The two samples cannot be compared because of the absence of State sample results. At least the two sub-samples of the Central sample for Sikkim could be seen for any clue regarding the behaviour of calorie intake over MPCE classes but the results are not available. It is long since the NSSO has given up publishing estimates of different sub-samples.

In absence of the State sample data of 55th round, the Government of Sikkim may like to get the recently collected data of the State sample of 61st round tabulated quickly through manual tabulation and put on the Excel sheet. The average calorie intake by MPCE classes from this round may throw some light on the strange feature of calorie intake of 1800 to 1900 over increasing MPCE classes upto Rs.525 whether this feature is for real or due to sampling fluctuations. At least the 50th round results give positive evidence of the increasing trend for both Sikkim and Manipur having small sample size. For the latter, the estimates for 55th round look wayward with impossibly high figures relative to the 50th round. While an examination on the basis of 61st round is very necessary to reach any conclusion, a quick manual transcription of relevant items for poverty estimation from consumer expenditure schedule 1.0 and obtaining factors of multipliers from schedule 0.0 of 60th round (2003-04) and subsequent entry on Excel sheets are revealing.[8]

[8] The effort put in for transcribing the data from the schedules by the trainees of the recently concluded training programme on `poverty estimation' at DESME is gratefully acknowledged. The author is particularly thankful to the Director for extending the computer facilities of the office.

Preliminary Results of Quick Tabulation of 60th Round (Jan-June 2003), State Sample

Table 61 shows the behaviour of calorie-intake with increasing MPCE. There is an increasing trend initially followed by a few dips again to show the unmistakable upward movement. It is not a monotonic increasing function, one would expect. The small sample size (of only 44 sample villages and 176 sample households) for rural Sikkim notwithstanding, the results are encouraging. Relatively, the quality of quantity figures is not affected as it was perhaps for the 55th round (via the use of two recall periods side by side in the schedule).

In the 60th round, there were two types of schedules, one with 7 day recall and the other with 30 day; even in the former for cereals etc that provide the maximum proportion of energy, the recall was 30 days. It is therefore, the questionnaire designing and the methodology of data collection and not the sample size alone that are more important in such studies. It may be noted that the MPCE classes need to take into account the effect due to inflation. The NSSO revises the class limits from time to time; based on cumulative percentage of estimated number of persons, the cut-off points or the upper limits are determined for 5%, 10%, 20%,-------------90%,95% and 100% of the population. The same procedure is adopted for determining the upper limits of the new MPCE classes. Thus the MPCE classes of 60th round are comparable to those of 55th and 50th rounds even though the class limits are different.

Table 61 Per capita per diem calorie-intake (K Cal) by MPCE Classes 60th round (2003): Rural Sikkim

MPCE Class (Rs.)	Calorie-intake (Kcal)
-300	990
300- 375	1492
375 - 430	1702
430 - 500	1289
500 - 590	1906
590 - 640	1627
640 - 710	1827
710 - 800	2033
800 - 900	2193
900 – 1060	2424
1060-1250	2906
> 1250	3598
no.of sample villages	44
no.of sample households	176

10.17 Poverty Line based on smoothed distribution

Exercise 1

We can use the overall growth rate of calorie-intake during the period from 1993-94 to 1999-00 to correct the size distribution of 55th round by applying the same rate for all the classes with the initial value same as in 55th round. Table 62 presents the results.

Table 62 Actual and smoothed per capita per diem Calorie-intake for rural Sikkim

MPCE Class (Rs.)	Per Capita Per Diem Calorie-Intake (Kcal): 55th round, 1999-00	
	Actual	Smoothed
000-225	*	*
225-255	*	*
255-300	1607	1607
300-340	2442	1649
340-380	1801	1717
380-420	1921	1814
420-470	1817	1947
470-525	1859	2008
525-615	1990	2217
615-775	2245	2305
775-950	2139	2675
>950	2786	2647

With the underlying assumptions, the use of 1753 Kcal as the norm of minimum calorie intake leads us to the poverty line of Rs.394.84 for the rural sector. Applying this poverty line on the size distribution, we get the HCR for rural Sikkim as 29.8%.

Exercise 2

We have seen that except for 50th round the average calorie intake is not strictly a monotonic increasing function of MPCE. In order to bring in monotonicity necessary for determining poverty line for 1999-00 we resort to the technique of moving average in Table 63. We discard the 55th round distribution and use those of 50th and 60th rounds but since the two rounds are not equally placed around 55th round over time, we take a weighted average of the calorie- intake (C) for every MPCE, that is, $0.6\ C_{60} + 0.4\ C_{50}$, assigning higher weight to the 60th round, being nearer to 1999-00. It is seen from Table 62 that the resultant relationship is much smoother but it lacks monotonicity. For this purpose, except for first and the last values, a three-point moving average is obtained. The smoothed values, as expected, show the monotonic increase over MPCE classes. **Applying the minimum threshold calorie-intake of 1753 Kcal to the smoothed distribution we get through simple interpolation the poverty line as Rs.419 which in turn, gives a Head Count Ratio of 38.8 % for the rural sector of Sikkim.**

Table 63 Estimated Per Capita Per Diem Calorie Intake for 1999-2000 From 50th Round and 60th Round

MPCE (Rs.)	Per Capita Per Diem Calorie (Kcal)	
	Wtd. 50th & 60th	moving average
0 – 225	990	
225-255	1424	1333
255- 300	1586	1467
300- 340	1390	1587
340- 380	1786	1610
380-420	1655	1755
420-470	1824	1816
470-525	1971	1980
525-615	2145	2144
615-775	2316	2402
775-950	2744	2736
950+	3148	

Out of the two estimates, one based on the smoothed distribution using 50th round and 55th round and the other based on 50th and 60th rounds, the latter carries less assumptions and is in proximity of the PC estimate of poverty ratio that is, 40% though the 55th round distribution is discarded. An exercise based on all the three rounds resulted in abnormally high poverty line and it was thought proper not to include the 55th round.

An important point to be noted in the context of the exercises referred above is that the poverty line is very sensitive to changes in calorie-intake, in turn affecting the estimate of Head Count Ratio drastically. It is therefore, important to have a reliable distribution of calorie-intake by MPCE classes and that is possible only with reasonably large sample size. The Central sample alone or the State sample will not yield reliable results. In this backdrop, the estimate of poverty arrived above may be taken as preliminary and it needs to be confirmed by results of other rounds.

10.18 Case for a Fresh Survey

To sum up, the two crucial inputs for poverty estimation for Sikkim are (i) minimum threshold calorie-intake and (ii) the distribution giving per capita per diem calorie-intake by MPCE classes. On both counts, Sikkim does not have the requisite data. The former can only be determined by the ICMR through a special study. For the latter, if the effort to pool the Central and State samples fails, an independent survey with an appropriate sample design may be launched. By appropriateness, it is meant that the design should preferably be self-weighting (this is necessary to dispense with too many multipliers and avoiding complicated programme writing) and procedures of hamlet formation and second stage stratification be simplified (to avoid sampling biases on this count) and proper checks on quantity figures of food items be devised. The sample size should be doubled in comparison to the present State sample (that is, equivalent to the sample size of Central and State samples). Suitable device is to be thought of to have enough sample size of the nonaffluent households so that firm estimates of quantities of consumption be obtained for the middle range of population.

10.19 Alternative Method

There is no NSSO methodology for arriving at the poverty profile for any State. The Planning Commission is the nodal agency for estimating poverty and as such the NSSO does not furnish any estimates of the poverty ratio. Besides furnishing the tabulation required by the Planning Commission, the NSSO does provide estimates of nutrition intake in terms of calorie intake per consumer unit per day (rate of equivalence of a normal person on the basis of age-sex composition of a person). From the 26th round, the NSS has been using a level of 2700 kcal per consumer unit per diem as a standard measure of actual intake. This level is referred to as the `norm' level of calorie intake both for the rural and urban areas. Estimates of calorie intake per consumer unit per day expressed as percentages of this norm presented in the report No.471 could be used for arriving at alternative estimates of poverty in the sense of minimum nutritional intake for Sikkim. If this method is to be adopted for getting the poverty profile for Sikkim, the levels of nutrition intake as obtained via intake of three nutrients calorie, protein and fat could be used for assessing the living standards of different sections or classes of population. More specifically, the distributions of households and persons by calorie intake separately by monthly per capita expenditure (MPCE) classes may be used. The results furnished in the Appendix of the report however, do not lead us anywhere as in every MPCE class there is a substantial proportion of households/persons whose calorie intake is less than the normal. It is not understood why such a mass of data are published and who could be the possible user?

10.20 Capacity Building for Poverty Estimation

Immediate steps are suggested for enhancing the capability of the Directorate of Economics & Statistics and Monitoring & Evaluation (DESME) to bring out poverty estimates not only for the base year (1999-00) but also for later years.

a. Up-gradation of Library: The existing reports, documents and brochures may be properly documented and kept methodically. The missing issues of Volumes 1 & 2 of Instructions to Field Workers of NSS rounds may somehow be obtained and kept properly. Similarly, the NSS Reports and volumes of Sarvekshana for past rounds, if not already there, be procured, failing which the NSSO may be approached for soft copies available at price on discs. The Planning Commission Reports coming out from time to time dealing with poverty may be procured. All journals dealing with price statistics, for example, Indian Labour Journal, Indian Labour Statistics should be there in the library. In fact, a list of all the journals dealing with basic statistics of the Indian Economy, not in the library, be prepared for replenishing the library gradually.

b. Retrieval of data: The filled –in-schedules of the NSS State Sample for all the past rounds may be traced and data entered (or micro-filmed). In particular, all the Household consumer expenditure and employment-unemployment schedules of the quinquennial rounds that is, 38th, 43rd, 50th and 55th should be data entered along with multipliers. This should be followed by efforts to rope in the Data Processing Division of the NSSO, to help the DESME to complete the lagging data processing work. Special efforts be made to finish the processing of the latest quinquennial round that is, the 61st round. The left out annual rounds could be then be taken up.

c. Quality of Field Data: One of the main reasons for the unprocessed State sample data presumably is the not-so-good quality of filled –in schedules. The reason again, presumably is not-up-to-the-mark supervision supposed to be three or even four-tiered. A Committee may go into the matter first to investigate as to why despite the Central and Regional Training Conferences, held by NSSO for every round, the basic quality of data is not acceptable and secondly, to see why the supervision mechanism fails and lastly, whether the sample design is too complicated and demanding to warrant a change.

d. Cost of Living Indices: For the weighting diagrams, the data from consumer expenditure schedules of 50th or 55th round or both for the total rural and total urban sectors may be first used. The price collection from retail shops already identified for the urban sector industrial workers be extended to the entire urban sector. For the rural sector, the job of identifying retail shops in each of the district may be taken up with a view to obtain cost of living for different segments of the rural population. For details, officers may be deputed to the Labour Bureau for the methodology. Till the time the system gets going, rural prices could be obtained for170 items from the household consumer expenditure surveys of the quinquennial rounds. A fractile classification of households would enable one to arrive at the prices paid by population between 30th and 70th fractiles that is, the middle population. And we get a time series to obtain the cost of living indices for the middle range of rural population, having taken the 38th round or 43rd whichever is available as the base year.

10.21 Summary

Sikkim does not have a poverty line of its own; the poverty ratio of Assam and its movement due to price adjustment of its poverty line are deemed to hold good for Sikkim too. While this estimation by proxy is not the least desirable, the size distribution (average per capita calorie-intake by MPCE classes) of Sikkim which apparently till now has not been looked into, indicates that the Assam HCR implies a poverty line of Rs.425, by far the highest in India. The only estimate for Sikkim is by Dubey & Gangopadhay who too, use rural Manipur and urban Meghalaya prices that is, here again, the estimation is by proxy. Moreover, these estimates have an upward bias. Be that as it may, the evidences suggest that the HCR for Sikkim on the whole, could be in the range of 37.4% to 41.3% during 1993-94.

The latest year for which official estimates are available pertains to 1999-00, that of the 55^{th} round of NSS. There is a general feeling among researchers that poverty is underestimated in this round due to simultaneous use of 7-day and 30-day recall periods. This resulted in various adjustments. In general, the adjusted poverty ratios were seen to be higher than the official estimates. If one goes by Assam's HCR, taking into account the adjustments, the range for rural Sikkim is observed to be 35.5% to 53.4% in 1999-00 whereas it was 40% to 45% in 1993-94. It can be concluded that a drastic decline in HCR did not happen during 1993-94 to 1999-00. The main handicap for Sikkim falling in line with major states with respect to poverty estimation is the absence of cost of living indices in rural areas.

The results of successive rounds of NSS did reveal that the norms of 2400 Kcal for the rural and 2100 for the urban were never achieved by the price- adjusted poverty lines. There was a decline in the average calorie-intake over the years.

In our search for a preliminary estimate of poverty for Sikkim therefore, the Task Force methodology of obtaining average calorie intake was applied for the base year, taken as 1999-00, using the relevant data from Population Censuses 1991 and 2001 and NSS data on employment and unemployment from 55^{th} round. The detailed exercise was carried out for 1999-00 using both 1991 and 2001 censuses yielding two sets of estimates. The norms based on 2001 census were accepted being nearer to the base year. The norms of 2511 Kcal for rural and 2141 for the urban, surprisingly were in the proximity of the official norms obtained for all India for 1973-74. If these norms were used, the bulk of the population would be deemed to be poor. This necessitates the use of the concept of minimum calorie-intake, arrived at by one corresponding to the poverty line. Since the only north-eastern state that is, Assam is vested with an official poverty line, .the minimum calorie intake corresponding to its poverty line that is,1753 Kcal for rural is taken as the norm.

Having arrived at the calorific norms, the next step to use the size distributions of consumer expenditure giving average calorie intake for each class for deriving the poverty line was throttled because of the absence of any increasing trend of calorie-intake with increasing MPCE. Apparently the NSS distribution for the 55^{th} round looks suspect in the presence of a very positive evidence of increase according to 50^{th} round distribution.

On the assumption of the overall growth rate in calorie consumption during the period, the observed values for each class except the initial one were corrected. The resulting distribution gave a monotonic increase in consumption of calorie according to increasing MPCE. Using this distribution and the calorie norm of 1753 Kcal for the rural sector, the poverty line for rural Sikkim came to be Rs.395 which when applied to the distribution of persons by MPCE gave the HCR as

29.8%. The same for the urban sector was not attempted because of very few classes for which results are given. This indicates that the sample size for the urban sector should be increased.

The results obtained through copying of relevant data of 60th round State sample and subsequently working on Excel sheets yielded the distribution. A weighted average of the calorie intakes of 50th and 60th rounds for every MPCE class gave the desired distribution but the technique of moving average was applied to get the monotonic increasing relationship. This was used for getting the poverty line (Rs.419) for rural sector. The HCR of 38.8% for 1999-00 obtained through this exercise seems to be a better preliminary estimate.

Thus, with all the constraints of data and number of assumptions, it can be concluded that the Head Count Ratio for rural Sikkim was perhaps in the range of 40 to 45% in 1993-94 and came down probably to around 39% in 1999-00.

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Annexures

Annexure 1.1: The Implications of TfFC Report on State Finances of Sikkim

Tax Revenue Devolution:

- As per the recommendations of the TfFC, the States share has been fixed at 30.5 per cent of the net proceeds of sharable Central Taxes. Out of this, the share assigned to Sikkim is 0.227 per cent. In the case of service tax, the share of Sikkim, however, is 0.230 per cent. The share of Central taxes and duties projected for Sikkim during the award period of TfFC is Rs. 1392.94 crore.

Grants-in-aid:

- What Sikkim gets by way of grants-in-aid on the basis of TfFC Report is given in Table 6, Chapter 2.
- By far the single largest item under grants-in-aid is non-plan revenue gap grant which is Rs. 188.67 crore for the five year period. This amount, however, is significantly lower than what the State govt got from EFC for the period 2000-05 and what other small States of North East are getting from TfFC. Apparently a large lottery revenue for Sikkim in the base year led the TfFC to project a very rosy picture for the State during 2005-10 and that in turn resulted in a lower non-plan revenue gap grant for the State.
- The TfFC has provided Rs 100 crore of grants-in-aid for specific needs of the State. This is meant for an airport. But this amount will be re-imbursed to the State only on utilization. It is important to note that the EFC had provided Rs 50 crore for the same purpose, but the State could not utilize it.
- The TfFC has imposed conditions on release of grants-in-aid for maintenance of roads and bridges as well as for maintenance of public buildings. The TfFC has stipulated: (i) These grants should be spent on non-salary maintenance of Roads & Bridges and Buildings; (ii) The grants meant for buildings should be spent on public buildings other than residential; (iii) These grants should be budgeted and spent for meeting the non-plan revenue expenditure under the specific heads and sub-heads; (iv) The grants may be released in two equal installments in a financial year. While there will be no pre-conditions for release of the first installment in any year, the second installment will be released on fulfillment of detailed year wise pre-conditions laid down in Annexure 10.4, 10.5 and 10.6 of TfFC Report.
- The TfFC has recommended an amount of Rs.8.00 crore as grants-in-aid for maintenance of forests and an amount of Rs 5.00 crore as grants-in-aid for heritage conservation. These grants are additionalties, over and above the normal expenditure incurred by the State Government and are available without any conditions.

- The Government has accepted the recommendation of TfFC to provide grants-in-aid to local bodies. The share of Sikkim is Rs. 13.00 crore for rural local bodies and Rs. 1.00 core for urban local bodies. The commission has emphasized that of the grants allocated to Panchayats, priority should be given to expenditure on the O & M costs of water supply and sanitation and that at least 50% of the grants provided to each State for the urban local bodies should be earmarked for the scheme of solid waste management. Besides expenditure on the O & M costs of water supply and sanitation in rural areas and on the schemes of solid waste management in urban areas, panchayats and urban local bodies should, out of the grants allocated, give high priority to expenditure on creation of a data base and maintenance of accounts.

Calamity Relief Fund:

- The TfFC has recommended the continuation of the scheme of Calamity Relief Fund (CRF) in its present form with contributions from the Centre and the States in the ratio of 75:25. The size of the CRF for the 5 year period 2005-10 for Sikkim is Rs. 92.97 crore of which 69.74 crore is the Central share.

Debt Relief to States:

- The TfFC has recommended that the scheme of Fiscal reform Facility may be replaced by a scheme of Debt Relief over the period 2005-10. The scheme of relief recommended by the commission envisages:

  (a) The rescheduling of all Central loans contracted till 31-3-2004 and outstanding as on 31-3-2005 into fresh loans for 20 years carrying 7.5% interest with effect from the year a State enacts the Fiscal responsibility Legislation.

  For Sikkim debt relief awarded by TfFC through consolidation is a total of Rs. 44.65 crore over the award period of 5 years comprising of relief of Rs. 10.69 in repayment of the principle and Rs. 33.96 crore of interest liability.

  The Government has accepted these recommendations subject to the condition laid down by the TfFC. It also expects that the states would comply with the obligations regarding Fiscal deficit and Revenue Deficit imposed by the Fiscal Responsibility Legislation. The Centre would request the next Finance Commission to make appropriate adjustment incase the State availing of the debt relief is not able to comply with the Fiscal Responsibility Legislation. It is important to note in this connection that Sikkim along with a few other small special category states are in a special situation as they are not in revenue deficit but are in surplus.

  (b) The TfFC has also recommended a debt write-off linked to reduction in revenue deficit by a State. The quantum of write-off of repayment would be linked to the absolute amount by which the revenue deficit is reduced in each successive year during the award period. In accordance with the recommendations of the TfFC, the benefit of write-off would be available only if the fiscal deficit of the State is contained to the level of 2004-05. If in any year, the fiscal deficit exceeds this level, the benefit of write-off, even if eligible otherwise, would not be given. The Government has accepted this recommendation.

  In the case of Sikkim along with Arunachal Pradesh, Jammu & Kashmir, Meghalaya, Nagaland and Tripura, since they are in revenue surplus the calculation of incentive criteria is different from that for other States. The details are worked out by the TfFC and given in Annexure 12.8 of the Report.

  For Sikkim repayments due during 2005-10 after consolidation and reschedulment is Rs. 48.07 crore with an annual repayment due of Rs. 9.61 crore. If the State Government is able to maintain a revenue surplus of Rs. 168 crore (which is the average for 3 years 2001-04) in each of the five years of the award period, no repayment is required.

  Central Assistance for State Plans:
  The TfFC has recommended that the Centre should release only the grant portion of Central Assistance for State Plan and leave the State to raise loan portion from other sources. For States unable to raise loans from the market, the Centre may act as a financial intermediary but without any subsidization of cost.
  This approach has been accepted in principle to be implemented in phases, in consultation with the RBI. From 2005-06, the States would be allowed at their discretion, not to draw the loan portion of the Central Plan Assistance.

  The State Government of Sikkim has to take a considered view about this.
  External Assistance:
  The TfFC has recommended that the Centre should pass on external assistance on back-to-back basis to States and manage it through a separate Fund in the Public Account.

The Government has accepted this recommendation subject to the condition that the service cost and exchange rate risk would be passed on to the States under this arrangement.

Accounting Procedure:
The Commission has recommended a move by the Centre towards introduction of accrual accounting and standardization of accounting classification down to the object head for all States to improve fiscal management.

The Government has accepted this recommendation in principle. The Government Accounting Standards Board in the office of the Comptroller and Auditor General of India would be asked to draw a detailed road map and operational framework for its implementation.

Annexure 2.1 Important Indicators of Trends in State Finances

Rs. Crore

Item	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05 (BE)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
State's own tax revenue	29.91	36.50	46.76	49.07	65.39	80.38	105.53	108.01	93.58
Share of central loans	73.34	79.91	92.21	99.54	72.20	84.83	77.20	112.33	126.64
Net non-tax revenue	39.34	43.03	42.92	64.79	65.63	71.12	143.36	95.04	109.81
.Grants in aid	225.00	253.24	280.78	320.47	435.98	513.75	581.95	583.56	749.30
Capital receipts	22.29	33.58	62.39	132.64	37.60	58.12	39.40	53.83	97.69
Total receipts (1 to 5)	395.88	446.26	525.06	666.51	676.80	808.20	947.44	952.77	1177.0
Non-Plan expenditure	203.69	255.07	357.87	397.41	383.99	414.49	462.11	492.37	593.99
Interest payment	32.98	40.94	52.47	67.92	78.67	84.14	89.53	92.50	96.84
Plan expenditure	219.83	223.55	251.50	228.94	306.85	403.39	457.05	457.81	694.48
On revenue account	125.17	116.33	159.73	134.60	155.92	192.66	248.06	246.32	275.62
On capital account	94.16	107.22	91.77	94.34	150.93	210.73	208.98	211.49	418.86
Total expenditure	423.02	478.62	609.37	626.35	690.84	817.88	919.15	950.18	1288.5
Revenue exp. (7+11)	328.86	371.40	517.60	532.01	539.91	607.15	710.17	738.69	869.61
Capital exp.(9+12)	94.16	107.22	91.77	94.34	150.93	210.73	208.88	211.49	418.86
Revenue deficit (1+2+3+4-14)	-38.73	-41.28	54.93	-1.86	-99.29	-142.93	-197.9	-160.25	-209.72
Fiscal deficit	55.90	67.01	146.86	92.55	50.50	66.85	9.89	50.26	208.76
Primary deficit (17-8)	22.92	26.07	94.39	24.63	-28.17	-17.31	-79.64	-42.24	111.92
GSDP at current prices	553.00	651.00	782.00	840.00	976.00	1072.00	1153.0	1274.00	1408.0
Public debt	261.88	296.52	357.92	490.62	526.76	583.94	622.12	674.96	772.27

Source:

Annexure 2.2 Pre-Devolution Non-Plan Revenue Surplus/Deficit(-)

Rs. Crore

State	2005-06	2006-07	2007-08	2008-09	2009—10	2005-10
1	2	3	4	5	6	7
Arunachal Pradesh	-535.21	-564.47	-639.05	-671.81	-714.68	-3125.22
Assam	-3263.86	-3356.94	-3730.26	-3794.54	-3838.37	-17983.970
Manipur	-1139.43	-1220.17	-1323.99	-1418.62	-1511.21	-6613.42
Meghalaya	-715.93	-747.43	-838.93	-868.32	-902.86	-4073.47
Mizoram	-755.73	-806.72	-892.27	-964.16	-1025.43	-4444.31
Nagaland	-1234.13	-1312.98	- 1440.34	-1531.46	-1631.26	-7150.17
Sikkim	-274.39	-284.71	-325.56	-335.53	-360.02	-1580.21
Tripura	-1433.25	-1512.35	-1637.01	-1723.12	-1814.56	- 8120.29

Source: Report of the Twelfth Commission, Govt. of India, February, 2005.

Annexure 2.3 Post Tax Devolution Non-Plan Revenue Surplus/Deficit(-)

Rs. Crore

State	2005-06	2006-07	2007-08	2008-09	2009-10	2005-10
Arunachal Pradesh	-271.84	-262.94	-293.07	-273.92	-256.11	-1357.88
Assam	-305.67	29.83	155.86	674.49	1312.21	1866.72
Manipur	-808.39	-841.17	-889.10	-918.50	-934.82	-4391.98
Meghalaya	-376.67	-359.02	-393.24	-355.78	-312.15	-1796.86
Mizoram	-537.19	-556.52	-605..17	-634.00	-644.91	-2977.79
Nagalalnd	-993.65	-1037.66	-1124.44	-1168.17	-1212.58	-5536.50
Sikkim	-66.81	-47.06	-52.86	-21.94	1.40	-187.27
Tripura	-1041.91	-1064.30	-1122.91	-1131.90	-1133.18	-5494.20
Total States (Deficit)	-15091.86	-11315.21	-10922.15	-9998.51	-9528.14	-56855.87

Source: Report of the Twelfth Finance Commission, Govt. of India, February, 2005.

Annexure 2.4 Grant-in-aid for Non-Plan Revenue Deficit (2005-10)

Rs. Crore

States	2005-06	2006-07	2007-08	2008-09	2009-10	2005-10
1	2	3	4	5	6	7
Arunachal Predesh	271.84	262.94	293.07	273.92	256.11	1357.18
Assam	305.67	Nil	Nil	Nil	Nil	305.67
Manipur	808.39	841.17	889.10	918.50	934.82	4391.98
Meghalaya	376.67	359.02	393.24	355.78	312.15	1796.86
Mizoram	537.18	556.52	605.17	634.00	644.91	2977.79
Nagaland	993.65	1037.66	1124.44	1168.17	1212.58	5536.50
Sikkim	66.81	47.06	52.86	21.94	Nil	188.67
Tripura	1041.91	1064.30	1122.91	1131.90	1133.18	5494.20
Total States	15091.86	11315.21	10922.15	9998.51	9528.14	56855.87

Source: Report of the Twelfth Finance Commission, Govt. of India, February, 2005.

Annexure 2.5 Projection of Baseline and Reform Scenarios

Baseline Scenario

Baseline scenario depicts the continuation of the past trend in State's own revenue receipts and revenue expenditure. The figures given by the State Government for the year 2004-05 pre-actual forms the base year in the projection exercise and the forecasting has been carried out for a medium term during the period 2005-06 to 2009-10. Overall approach in the projection exercise has been forecasting own tax, non-tax revenues on the basis of past trends and central transfers on the basis of Twelfth Finance Commission's recommendations. The expenditures are categorized under broad heads of interest, pensions, major departmental expenditures and other revenue expenditures. Information regarding salary expenditures has been available only for regular employees. Wage bill pertaining to work charge, muster roll and other temporary staffs has been generally shown under departmental expenditures. Thus projection of major departmental expenditures and other revenue expenditures includes expenses pertaining to wages and salaries.

Revenue Receipts

Revenue receipts consists of own tax revenue and own non-tax revenue generated by the State government and Central transfers that include share in central taxes and grants under plan and non-plan heads

1. Own Tax Revenue

Own tax revenue is projected to grow at the rate 10 per cent per annum during the period 2005-06 to 2009-10. Own tax revenue is bundled together as was done by the TfFC. It should be mentioned that while projecting the own tax revenue of the state income tax collected under State laws have been retained under state taxes as the scenario is created on the logic of 'business as usual' approach

2. Own Non-tax Revenue

Own non-tax revenue is expected to grow at 10 percent during the projection period. As for lottery income, the three year average net revenue for 2000-01, 2001-02, and 2003-04 is taken as the base level, i.e., excluding the figure for 2002-03 which was exceptionally high. The base level figure is expected to continue for the forecast period as assumed by the TfFC.

3. Central Transfers

Share of central taxes and non-plan grants are assumed to be same as recommended by the TfFC. In the case of plan grants it is assumed that they will grow at the same rate as nominal GDP.

Revenue Expenditure

As far as revenue expenditure is concerned interest and pension forecasts are the same as those adopted by the TfFC. In the case of other revenue expenditure, the trend growth rates experienced during 1993-94 to 2004-05 have been used for forecasting the figures for the medium term.

Department specific projections have been made for important departments of education, health, police, power and transport. The rest of the departments have been clubbed together for projection purpose.

Gross State Domestic Product (GSDP)

The GSDP growth is assumed to be 12 percent in nominal terms during the forecast period which is the same as in the case of TfFC.

Capital Outlay

Capital outlay is projected to grow at the rate 12 percent, which was the trend over 1993-94 to 2003-04.

Reform Scenario

As compared to the baseline scenario, the reform scenario has considerable scope for policy interventions. Except for share of central taxes, non-plan grants, plan grants and pension expenditure, all other fiscal variables are considered endogenous.

1. Own Tax Revenue

Own tax revenue of the State has been projected taking into account the performance of individual taxes in the recent past and the proposed reform measures. The individual taxes are projected by applying a prescriptive growth rate that was estimated by multiplying expected buoyancy and GSDP growth of 12 percent. The individual buoyancies are calibrated taking into account the buoyancy estimated over 1993-94 to 200-03-04 and any improvement due to tax reforms. An important component of tax reform is the introduction of VAT with effect from April 2005. In the case of Sikkim, however, increase in the sales tax revenue buoyancy since 1999-2000 with the introduction of floor rates and plucking of the loopholes has been significant. The prescriptive growth rate is taken at 14.40 percent per annum comprising of revenue buoyancy of 1.2 percent and nominal GSDP growth rate of 12 percent. Similarly applying plausible revenue buoyancies for other major components of own tax revenues like state excise, land revenues, stamp duty and registration, motor vehicle taxes and other taxes, own tax revenue forecasting for the period 2005-06 to 2009-10 has been made.

Tax buoyancies used for projection:

Sales tax	:	1.200
State Excise	:	1.000
Land Revenue	:	0.500
Stamps & Registration Duties	:	1.000
Motor Vehicle Tax	:	1.200
Other Taxes	:	1.200

2. Non-tax Revenue

Non tax revenue is projected net of lottery income. The principal components are interest and dividends, general services, social services and economic services. Except three items under economic services viz. forestry, power and transport, all others are expected to growth at 12 percent, same as the nominal growth of GSDP. Considering the need for preserving the forests and in view of the fragile nature of environment in the State, revenue from forestry is kept at the base year level throughout the forecast period. Power and Transport being two economic services which involve substantial subsidies, significant improvement in revenues from user charges is expected. Revenue from power is expected to grow at 24 percent per annum and revenue from transport is projected to grown at 18 percent per annum. Revenue growth from power need not necessarily be from increased tariff. It could very well be achieved by improving the operations of the power sector including reducing Transmission and Distribution (T&D) losses. Similarly in the case of transport also increase in fare/fright charges need not be the source of revenue improvements. Improvements in operational efficiency can bring in more revenues.

Net lottery incomes for the base period is taken as the three year average for 2001-02, 2003-04 and 2004-05 which worked out to 27.91 crore. The same level of net lottery income is expected for each of the forecast years.

3. Central Transfers

Share of central taxes and non-plan grants are assumed to be same as recommended by the TfFC. In the case of plan grants it is assumed that they will grow at the same rate as nominal GDP.

Revenue Expenditure

In the total revenue expenditure about 70 percent is accounted for by non-plan expenditure in the base period. This includes interest liability as well as pension payments. While pension figures are as projected by the TfFC, interest figures have been taken after adjustments for interest reduction arising from rescheduling and rate reduction on outstanding debt to the Centre as recommended by the TfFC. While projecting the revenue expenditure of various departments, a clear distinction is made between plan and non-plan expenditure on the one hand and salary and O&M expenditure on the other. Non-plan salary expenditure is expected to grow at a rate not exceeding 5 percent. At the same time there is a genuine need to raise the operation and maintenance (O&M) expenditure significantly to generate the intended outcomes of public expenditure. It has to be noted that a substantial share of the plan revenue expenditure is also on account of salary to employees who have been continuing from plan to plan. For all practical purpose this is also in the nature of non-plan expenditure. Indeed, exceptions apart there is hardly any need for fresh recruitment except in Education and Health during the medium term. The salary expenditure even on the plan side should be growing at less than 10 percent per annum.

Projection of revenue expenditure on power and transport need special mention. Since power and transport in the state are departmentally operated and the net revenues of these departments are significantly negative, the subsidy burden is directly borne by the state govt. Considering the difficult terrain and the low levels of income of majority of the Sikimese it is unrealistic to expect to run these facilities without subsidies. However, there is need for improving the operational efficiencies of these departments, reducing the non-functional staff in these departments and appropriately increasing the user charges. The combined effect of these measures is expected to reduce the subsidies considerably.

The growth rates used to project departmental expenditures are calibrated taking into account their past trends and recommendations for reform measures.

Departmental growth Rates Used in the Projection

Education	:	15
Health	:	15
Police	:	6.56
Power	:	10
Transport	:	5
Other Revenue Expenditure	:	10

Capital Outlay

Two scenarios under reforms have been created by projecting capital outlay to grow at 12 and 10 percent respectively.

Annexure 8.1 Profile of SLPEs in Sikkim in 2001-02

(Rs in crore)

Name of the enterprise	Establishment	Typology	Classification	Equity	Debt	Investment	Net Profit / losses	Reserves	Accumulated profit/loss	Turnover	Net Worth	Capital Employed	Contri-Bution
SIDICO	1977	Govt. Company	Financial	16.04	3.42	19.46	0.15	2.14	-10.34	1.19	7.84	21.6	0.17
State Bank of Sikkim	1968	Public Corporation	Financial	0.58	3.98	4.56	-1.85	9.48	-23.26	9.54	0	10.06	2.38
Sikkim State Co-operative Bank	1998	Co-operative society	Financial	8.5	0	8.50	1.09	0.6	1.1	1.76	0	22.36	0
Sikkim Jewels	1972	Govt. Company	Manufacturing	5.49	1.61	7.10	-0.06	0.86	0.62	2.26	6.19	4.72	0.06
Sikkim Hatchery	1994	Govt. Company	Manufacturing	0.46	0	0.46	0	0	0	1.2	0	0	0
Sikkim Poultry	1999	Govt. Company	Manufacturing	0.79	0	0.79	-0.02	-0.11	-0.26	0	0.53	0.54	0
Sikkim Precision Industries	1999	Govt. Company	Manufacturing	0	0	0.00	0	0	0	0	0	0	0
SITCO	1976	Govt. Company	Manufacturing	10.97	0.99	11.96	-0.51	5.47	-5.11	4.86	12.27	11.31	1.53
Tea Board of Sikkim	1974	Public Corporation	Manufacturing	19.52	0	19.52	0.08	0	8.04	2.01	7.91	8.54	0.16
Sikkim Milk Union	1980	Co-operative society	Manufacturing	0.02	0.08	0.10	-0.75	2.67	-1.22	4.39	1.41	-0.4	-0.26
Govt. Fruit Preservation Factory	1964	Govt. Company	Manufacturing	0	0	0.76	0.05	0	0.11	1.31	0.75	1.96	0
Sikkim Tourism	1998	Govt. Company	Promotional	4.79	0	4.79	0.67	0	0	1.3	4.84	1.45	0.43
Sikkim Handloom and Handicrafts Dev. Corp. Ltd	2003	Govt. Company	Promotional	0	0	0	0	0	0	0	0	0	
Khadi and Village Board	1978	Public Corporation	Promotional	0	0.34	10.09	-0.21	0	0	0.16	0	0	0
State Trading Corp.	1972	Public Corporation	Trade and Service	1.11	0	1.11	0.75	4.21	4.21	12.93	4.8	5.32	0
Sikkim Consumer Co-operative Soceity	1975	Co-operative society	Trade and Service	0.17	0	0.17	0.009	0.19	0.61	2.04	0.46	0	2.02
SIMFED	1982	Co-operative society	Trade and Service	0.88	0.17	1.05	0.32	1.28	-0.22	15.01	2.17	0	0.71
Denjong	1965	Co-operative society	Trade and Service	0.20	0	0.20	-0.42	0.19	-0.25	6.09	1.13	0.17	0.02
Sikkim National Transport Corp.	1944	Departmental Enterprise	Utility	33.08	0	33.08	-3.74	-6.4	0	15.41	0	0	0
State Energy and Department of Power	1967	Departmental Enterprise	Utility	470.92	0	470.92	-65.85	0	0	11.85	0	0	0
Sikkim Power Dev. Corp.	1998	Govt. Company	Utility	3	50.01	53.01	0	0	0	0	2.4	3.19	0
SABCCO	1996	Govt. Company	Welfare	6.49	9.12	15.61	0.35	0	-0.16	0.69	6.14	0	-0.32

0- data not existing / available
(Source : Annexure 8.9)

Annexure 8.2 Profile of SLPEs in Sikkim in 2002-03 *(Rs in crore)* *)*

Name of the enterprise	Establishment	Typology	Classification	Equity	Debt	Investment	Net Profit / losses	Reserves	Accumulated loss/ profit	Turnover	Net Worth	Capital Employed	Contribution
SIDICO	1977	Government Company	Financial	16.54	2.94	19.48	2.51	2.4	-7.83	3.45	11.11	21.88	2.53
State Bank of Sikkim	1968	Public Corporation	Financial	0.58	4.4	4.98	-21.57	9.48	-44.84	12.08	0	10.06	5.15
Sikkim State Co-operative Bank	1998	Co-operative society	Financial	8.91	0	8.91	0.24	1.47	0.35	1.78	0	241.4	0
Sikkim Jewels	1972	Government Company	Manufacturing	5.99	1.83	7.82	0.05	1.65	0.66	2.15	7.51	5.36	0.01
Sikkim Hatchery	1994	Government Company	Manufacturing	0	0	0.46	0	0	0	1.38	0	0	0
Sikkim Poultry	1999	Government Company	Manufacturing	0	0	0.79	-0.11	-0.08	-0.34	0	0.45	0.45	0
Sikkim Precision Industries	1999	Government Company	Manufacturing	3.7	0	3.70	0.12	0	0.12	0.4	3.82	0	0
SITCO	1976	Government Company	Manufacturing	11.22	0.81	12.03	-2.68	2.63	2.26	2.96	9.7	8.07	-0.52
Tea Board of Sikkim	1974	Public Corporation	Manufacturing	20.44	0	20.44	-0.22	0	7.82	1.75	7.84	8.38	0.9
Sikkim Milk Union	1980	Co-operative society	Manufacturing	0.06	0.08	0.14	-0.71	3.42	-1.67	4.54	1.72	-0.63	-0.11
Govt. Fruit Preservation Factory	1964	Government Company	Manufacturing	0	0	1.07	-0.06	0.09	0.4	0.17	1.79	2.04	0
Sikkim Tourism	1998	Government Company	Promotional	4.79	0	4.79	-0.96	0	-0.6	0.92	4.13	-0.96	0.08
Sikkim Handloom and Handicrafts Dev. Corp. Ltd	2003	Government Comapy	Promotional	0	0	0	0	0	0	0	0	0	
Khadi and Village Board	1978	Public Corporation	Promotional	10.89	0.35	11.24	-0.19	0	0	0.2	0	0	0.01
State Trading Corp.	1972	Public Corporation	Trade and Service	0	0	1.11	0.98	0	0	19.54	6.6	0	0
Sikkim Consumer Co-operative Soceity	1975	Co-operative society	Trade and Service	0.17	0	0.17	0.10	0.22	0.69	3.21	0.47	0	3.2
SIMFED	1982	Co-operative society	Trade and Service	0.84	0.17	1.01	0.15	1.37	-0.19	11.53	2.21	0	0.43
Denjong	1965	Co-operative society	Trade and Service	0.2	0	0.20	-0.34	0.19	-0.36	0.59	1.02	0.18	0.02
Sikkim National Transport Corp.	1944	Departmental Enterprise	Utility	34.49	0	34.49	-4.88	-4.97	0	17.39	0	0	0
State Energy and Department of Power	1967	Departmental Enterprise	Utility	470.92	0	470.92	-37.36	0	0	13.31	0	0	0
Sikkim Power Dev. Corp.	1998	Government Company	Utility	3	50.01	53.01	0	0	0	0	3	8.39	0
SABCCO	1996	Government Company	Welfare	8.99	11.11	20.10	-1.12	0	-1.56	0.78	8.59	0	-0.36

0- data not existing / available (Source : Annexure 8.9)

Annexure 8.3 Profile of SLPEs in Sikkim in 2003-04

(Rs in crore)

Name of the enterprise	Establishment	Typology	Classification	Equity	Debt	Investment	Net Profit / loses	Reserves	Accumulated loss/ profit	Turnover	Net Worth	Capital Employed	Contribution
SIDICO	1977	Government Company	Financial	17.04	2.62	19.66	0.47	2.4	**-7.36**	1.73	12.08	22.06	
State Bank of Sikkim	1968	Public Corporation	Financial	0.58	4.82	5.4	-0.95	0.11	**-36.42**	14.8	0	10.06	**2.79**
Sikkim State Co-operative Bank	1998	Co-operative society	Financial	9.36	0	9.36	0.69	0	1.05	2	0	27	**0.7**
Sikkim Jewels	1972	Government Company	Manufacturing	6.49	0.56	7.05	-0.38	1	0.28	2.05	7.65	4.82	**2.21**
Sikkim Hatchery	1994	Government Company	Manufacturing	0	0	0.46	0	-	0	1.38	0	0	**0**
Sikkim Poultry	1999	Government Company	Manufacturing	0	0	0.79	-0.08		0	0	0	0	**0**
Sikkim Precision Industries	1999	Government Company	Manufacturing	0	0	3.7	0.04	0.12	-0.02	0.33	3.87	0	**0.4**
SITCO	1976	Government Company	Manufacturing	11.22	0.52	11.74	-3.29		-2.92	2.39	4.54	-0.20	**-1.2**
Tea Board of Sikkim	1974	Public Corporation	Manufacturing	22.71	0	22.71	0.03	1.89	7.82	1.91	7.77	8.78	**0.05**
Sikkim Milk Producers Union	1980	Co-operative Society		0.06	0.08	0.14	-1.03	0	-2.54	4.22	0.85	-1.20	
Govt. Fruit Preservation Factory	1964	Government Company	Manufacturing	0	0	0	0.02	0.88	0.60	0.14	1.02	2.21	**0.43**
Sikkim Tourism	1998	Government Company	Promotional	6.06	0	6.06	-0.65	1.53	-2.59	1.34	-3.41	3.22	**0.5**
Sikkim Handloom and Handicrafts Dev. Corp. Ltd	2003	Government Company	Promotional	0.80	0	0.80	0		0.05	0.25	0.93	0	
Khadi and Village Board	1978	Public Corporation	Promotional	11.66	0.35	12.01	0		0	0.14	0	0	
State Trading Corp.	1972	Public Corporation	Trade and Service	0	0	1.11	0.66	0.74	0	15.53	7.9	0	**1.13**
Sikkim Consumer Co-operative Society	1975	Co-operative society	Trade and Service	0.17	0	0.17	0.008	0.24	0.75	2.4	0.5	0	**2.32**
SIMFED	1982	Co-operative society	Trade and Service	1.02	0	1.02	0.19		0	16.94	0	0	
Denjong	1965	Co-operative society	Trade and Service	0.2	0	0.2	-0.46	0.19	-0.83	6.1	0.94	0.19	**0**
Sikkim National Transport Corp.	1944	Departmental Enterprise	Utility	34.49	0	34.49	-4.2	0	0	17.24	0	0	**-3.44**
State Energy and Department of Power	1967	Departmental Enterprise	Utility	514.79	0	514.79	-22.69	0	0	13.57	0	0	**0**
Sikkim Power Dev. Corp.	1998	Government Company	Utility	3	50.01	53.01	0		0	0	3	6.86	
SABCCO	**1996**	**Government Company**	**Welfare**	**9.55**	**11.95**	**21.5**	**-1.12**	**-0.13**	**-1.69**	**0.93**	**9.42**	**0**	**-0.02**

0- data not existing / available
(Source: Annexure 8.9)

Annexure 8.4 Resource Mobilization by SLPEs in 2003-04

(Rs in crore)

Name of the enterprise	State Equity	Other Equity	Total Equity	State Debt	Other Debt	Total Debt	Investment
SIDICO	10.70	6.36	17.04	2.03	0.59	2.62	**19.66**
State Bank of Sikkim	0.53	0.05	0.58	0	4.82	4.82	**5.40**
Sikkim State Co-operative Bank	9.49	0.51	10	0	0	0	**9.36**
Sikkim Jewels	5.62	0.78	6.40	0	0.56	0.56	**7.05**
Sikkim Hatchery	0.34	0.11	0.45	0	0	0	**0.46**
Sikkim Poultry	0	0	0	0	0	0	**0**
Sikkim Precision Industries	3.70	0	3.70	0	0	0	**3.70**
SITCO	11.20	0	11.22	0.52	0	0.52	**11.74**
Tea Board of Sikkim	22.71	0	22.71	0	0	0	**22.71**
Sikkim Milk Union	0.06	0	0.60	0.08	0	0.08	**0.14**
Govt. Fruit Preservation Factory	0	0	0	0	0	0	**0**
Sikkim Tourism	6.06	0	6.06	0	0	0	**6.06**
Sikkim Handloom and Handicrafts Dev. Corp. Ltd	0.80	0	0.80	0	0	0	**0.80**
Khadi and Village Board	0	0	0	0	0	0	**12.01**
State Trading Corp.	1.11	0	1.11	0	0	0	**1.11**
Sikkim Consumer Co-operative Soceity	0.17	0	0.17	0	0	0	**0.17**
SIMFED	0.94	0.08	1.02	0	0	0	**1.02**
Denjong	0.20	0	0.20	0	0	0	**0.20**
Sikkim National Transport Corp.	33.08	0	33.08	2.51	0	2.51	**34.39**
State Energy and Department of Power	514.79	0	514.79	0	0	0	**514.79**
Sikkim Power Dev. Corp.	53.01	0	53.01	0	0	0	**53.01**
SABCCO	**8.04**	**1.51**	**9.55**	**8.21**	**3.74**	**11.95**	**21.50**

0- No mobilization from the source
(Source : Annexure 8.9)

Annexure 8.5 Profit Performance of SLPEs in 2003-04

Name of the enterprise	Net profit/Loss *(Rs. in crore)*	Investment *(Rs. in crore)*	Net profit /Loss on Total Investment (in %)
SIDICO	0.46	19.66	**2.34**
State Bank of Sikkim	-0.95	5.4	**-17.59**
Sikkim State Co-operative Bank	0.69	9.36	**7.37**
Sikkim Jewels	-0.38	7.04	**-5.40**
Sikkim Hatchery	0	0.46	**0.00**
Sikkim Poultry	-0.08	0.79	**-10.13**
Sikkim Precision Industries	0.04	3.7	**1.08**
SITCO	-3.29	11.74	**-28.02**
Tea Board of Sikkim	0.03	22.71	**0.13**
Sikkim Milk Union	-1.03	0.14	**-735.71**
Govt. Fruit Preservation Factory	0.02	0	**0.00**
Sikkim Tourism	-0.64	6.06	**-10.56**
Sikkim Handloom and Handicrafts Dev. Corp. Ltd	0	0.8	**0.00**
Khadi and Village Board	0	12.01	**0.00**
State Trading Corp.	0.66	1.11	**59.46**
Sikkim Consumer Co-operative Soceity	0.008	0.17	**4.71**
SIMFED	0.19	1.02	**18.63**
Denjong	-0.46	0.2	**-230.00**
Sikkim Nationalised Transport Corp.	-4.2	34.39	**-12.21**
State Energy and Department of Power	-22.69	514.79	**0.00**
Sikkim Power Dev. Corp.	0	53.01	**0.00**
SABCCO	-1.12	21.5	**-5.21**
Total	**-32.74**	**726.06**	**-4.51**

0-not available
(Source: Annexure 8.9)

Annexure 8.6 Characteristics of SLPEs in the State of Sikkim

Name of SLPE and Year of establishment	Form of Organisation	Market Structure (MS) and Activities (A)	Financial Status and Physical performance	Employees	Social purpose	Financial System & management and interface with Government	Performance improvement plan	SWOT Analysis	Problems encountered	Strategic inititatives
Sikkim Jewels Ltd (SJL) (7/2/1972)	Govt. Company	MS : Competitive A : Watch Jewels, Industrial Jewels Barings, rotor magents, and disposable syrenges	A company incurring marginal losses	125 Mgl 20 Nmgl 105	Providing employment to local	Budgeting and internal audit exist in the company	Wage Bill reduction from Rs. 10.5 lakhs per month to Rs. 6.5 lakhs per month	**S:** Good past record, new markets for health products and micro precision instruments	5% Export incentives not given amounting Rs. 0.25 crore due to non implementation of Central ITAct	New investments planned
			Physical performance: Capacity utilisation is 100 percent			Government directed pricing	Setting up disposable syringes and needles project to counter decline in demand of industrial jewels	**W**: declining domestic demand, Obsolete machinery,	GoS has to pay Rs. 0.40 crore towards VRS	Diversification of product line
						No delegation and decentralization	Enhancing capacity to 10 millions costing Rs 2.50 crore on import of machinery	**O** : Excessive staff		Global linkages for marketing
						Manpower planning and performance appraisal systems exists	To set up rotor magnets for quartz watches for exports worth Rs 7.00 crore	**T** : low priority assigned by the government and global competition		
						Performance evaluation methods non existence	Proposes to spend RS 0.50 crore on technical travel and training			
						Government nominees dominate the Board	Proposes to produce tiny jewels in micron tolerance			
						Tenure of the Board of Directors not specified	Proposes to produce high value low volume defense products			

						No R&D	Proposes to modernize plant by inducting latest state of art technology costing Rs. 0.30 crore.			
						Interaction with government : low	VRS given to 91 employees			

Name of the enterprise	**Form of Organisation**	**Market Structure (MS) and Activities (A)**	**Financial Status and Physical performance**	**Employees**	**Social purpose**	**Financial System & management and interface with Government**	**Performance improvement plan**	**SWOT Analysis**	**Problems encountered**	**Strategic inititatives**
Sikkim Tourism Dev. Corp. Ltd (21/09/98)	Govt. Company	MS: Competitive A: Tourism Services, transport (helicopter service) and market consultancy to tourism department	Financial Status : 100 percent state government equity, no long term debt, loss making, erosion of net worth, accumulated losses, scanty contribution, negative operating profits, advertisement expenses is 1% of total revenue	89 MGl 4 NM 85	Employment to 85 persons, capacity building for tourism and village tourism	No costing systems and standard costing , management reporting systems non existence, Govt. nominees dominate the board, partial delegation, non pricing systems, no costing system, no manpower planning, and no R&D	Occupancy rate of hotels is planned to be improved	S :Tourist traffic is increasing, pro-government policies for tourism, properties require vast repairs	Non managerial employees are too high in numbers, Board meets seldom, Helicopter service is affected by non availability of spare parts, Not connected by internet, Untrained middle and low management	Post of GM abolished and organization is being made lien
			Physical performance : Average occupancy rate			The company has vision to develop new tourist destination, construct and manage new hotels and provide facilities for tourism and tourists		W : Low share capital base, Transfer of departmental personnel has promoted unhealthy culture		Some key properties have been privatised such as Hotel Mayur, Singhik, Tsongo, and Alpine Cafateria
						Internal audit and budgeting systems partly exists		O: The state has become a popular tourist destination, Investors have shown keen interest in taking out properties of the company		VRS to excess staff is being considered

						Interface with the government : Very frequent interaction with Minister and political chairperson, The political chairperson instructs on pricing, investment, personnel selection, purchase of inputs and day-to-day decisions		T : Natural disasters are a great threat, any agitation in WB could upset the apple cart		To bridge the resource gap the corporation is pressing upon the government to handover Northhil Hotel , which is currently under the contoll of tourism department

Manufacturing

Name of SLPE and Year of establishment	**Form of Organisation**	**Market Structure (MS) and Activities(A)**	**Financial Status and Physical performance**	**Employees**	**Social purpose**	**Financial System & management and interface with Government**	**Performance improvement plan**	**SWOT Analysis**	**Problems encountered**	**Strategic initiatives**
Tea Board of Sikkim (1/6/1974)	Departmental Enterprise	MS : Competitive A: Black Tea (Orthodox)	Continious loss making enterprise, Stagnant capital employed, receding net worth, scanty contribution and negative operating profit	455 Magl -10 NM 444	Use of local resources and employment to locals	Being a departmental enterprise, no corporate systems exists	Non	S : Temi Tea has good demand and highly competitive market	Excessive staff, expansion not possible	
			Physical performance : 100% capacity utilisation			Interaction with govt. : Very low		O : Brand building opportunities exits	Latest technology for processing not available	

								T : Receding demand of tea	Expansion not possible	
									Plantation is getting aged	

Name of the enterprise	Form of Organisation	**Market Structure (MS) and Activities(A)**	**Financial Status and Physical performance**	**Employees**	Social purpose	**Financial System & management and interface with Government**	Performance improvement plan	SWOT Analysis	Problems encountered	Strategic inititatives
The Denjong Agricultural Co-operative Society Ltd (08/02/65)	Co-operative society	MS: Competitive A: Supply of fruits, vegetables and meat products	Continuously profit making company, Cent percent government equity, Debt free, Positive working capital, Increasing networth, High turnover, High contingent liability and High unsettled liabilities	112 Mgl 2 NM 60 Casual 40		Government officials dominated Board, Empowered board and chief executive, Budgeting, internal audit and pricing systems exist, MIS systems non existence, R&D non existant, Manpower planning doesnot exist, Board meets four times a year, and Board and CEO decide upon hiring and retrenchment	Modernisation	S: High turnover,	Dependence on army for supplies on negotiabted contract rates	Rationalisation of manpower under VRS
						Interface with government : Low	Rationalisation of labour force	W : high overhead expenses		Setting up of markets in retails/ wholesale chain outlets
								O : Expansion and diversification of business such as cold storage, chain outlets, agro processing and flour mills.		Increase in share capital
								T: Competitive market and over staffing		Modernisation of flour mills

Name of the enterprise	Form of Organisation	**Market Structure (MS) and Activities(A)**	**Financial Status and Physical performance**	Manpower	Social purpose	**Financial System & management and interface with Government**	Performance improvement plan	SWOT Analysis	Problems encountered	Strategic initiatives	Restructuring
SABCCO (1996)		MS : Monopoly A: Financing SC, ST and OBCs through margin money schemes , Mahila Samridhi Yogana, SLGs.	Continuously loss making, Increase in net worth due to equity infusion, Excessive direct cost, Negative working capital, High interest burden, Revenue subsidy and Guarantees from State Govt.	16 Mgl. 4 NM -12	Promote activities related to women through specific schemes	FS : Absence of costing, R&D and pricing systems, MIS systems non existence, Govt. officials dominated by the board and Empowered executives	Micro Credit Finance to be introduced	S : Provides financial assistance to the weakest section of the society and covers the entire rural population of the state	Recovery of loans faces a major problem as the target group belongs to people leaving below poverty line	Loans on cheaper interest rates as compared to Banks	Financial restructuring: Timely release of share capital, need for grant in aid for meeting administrative costs, release of replacement of repayment schedules of old loans
					Promoting SHGs	Interface with Government : Adequate	Tourism related schemes	W: Lack of professional manpower, Lack of proper recruitment policies, Lack of Govt. support for share capital and grant in aid, Failure to recover 100 per cent dues	Delayed release of share capital	Undertaking financial restructuring	Manpower restructuring : free and fare hand in recruitment of professionals

							Education al loan schemes	O: Total financial dependence on the state, Only medium to further GoS policies with regard to social welfare	Grant in aid towards meeting administrative costs not released	Proposes to recruit professionals	Organisational restructuring : induction of professionals to boast performance
								T: discontinuation of the Central and the State Govt. support and tough competitions from banks on account of low interest rate, easier availabilty of loans, simplified documentation process	Aged loans and revenue subsidy of 0.16 crores	Recovery of loans from deneficiaries by holding default recovery camps, filling cases under lok adalat and SPDR Act. The company proposes to involve local MLA's and Panchanyats in the recovery of debts	
									Inadequate qualified persons and lack of funds for management development programmes	Seek help to : liquidate and writeoff bad and douobtful debts, extend VRS, develop a new loans and train officers and staff	

Name of the enterprise	Form of Organisation	**Market Structure (MS) and Activities(A)**	**Financial Status and Physical performance**	Manpower	Social purpose	**Financial System & management and interface with Government**	Performance improvement plan	SWOT Analysis	Problems encountered	Strategic initiatives
Sikkim Precision Industries Ltd (1999)	Govt. Company	MS : Completely dependent on Principal, Bharat Electronics Ltd Competitive A: Manufacturing semi conductor devices	Profit making,	60 Mgl 4, Nm50 casual 6	Employment to 50 persons including handicapped	Absence of budget, internal audit, costing, pricing and MIS	Exploring international markets	S: Skilled manpower	completly dependent on BEL Ltd	Restructuring (product , market and technological) is planned costing Rs 90 lakhs
			Physical performance : 50 percent capacity utilized		Promote industry culture	Interface with Government: Very low		W: No labour unrest	Low Capacity utilisation	40 employess will be recruited due to restructuring costing to Rs 1.2 Lakh per month
								O: Non-pollutant enterprise, Good scope for diversifying activities	Low innovation	The company proposes to set up TO-92 assembly plant within the same premises will will generate employment for 40 persons
								T: Fully dependent on Bharat Electronics Ltd, Logistics problems, Competition from chinese devices and Mother-child relationship could cause problems	Low turnover	

Name of the enterprise	Form of Organisation	**Market Structure (MS) and Activities(A)**	**Financial Status and Physical performance**	Manpower	Social purpose	**Financial System & management and interface with Government**	Performance improvement plan	SWOT Analysis	Problems encountered	Strategic inititatives
Sikkim Handloom and Handicrafts Development Corporation Ltd (16-10-2001_	Sikkim Handloom and Handicrafts Dev. Corp. Ltd	MS: Competitive A: marketing of handicrafts items such as carpets, choktse , Thanka, Handloom and multicasts	Loss making and Dependence on external institutes for working capital	13 Mgl 1 . Nmg 12	Uplift the socio-economic status	Non existence and Very low degree of professionalism	Setting up a of pilot project to establish nine handicraft societies	S: Favourable government policy	High dependence on the department	setting up of marketing chain through out Sikkim
			Physical performance : Low turnover			Interface with Govt. **Satisfactory**		W: No grants in aid	Very short tenure for chief executives	Enhancing share capital
								O: Good market	Inexperienced personnel	Setting up a desing centre with modern technology
								T: Taxes		

Name of the enterprise	Form of Organisation	**Market Structure (MS) and Activities(A)**	**Financial Status and Physical performance**	Physical per-formance	Manpower	Social purpose	**Financial System & management and interface with Government**	Performance improvement plan	SWOT Analysis	Problems encountered	Strategic inititatives
Sikkim Poultry Development Corp Ltd (1991)	Govt. Company	MS : Competitive A: Trading in Poultry feed, equipments and products	Contentiously loss making, Unable to fund working capital and no money for capital expenditure		6 Magl. 1 Casual 5	Increase the income of grass root farmers through poultry farming	Budgeting, internal audit, costing and pricing systems are extension of the government systems		S: A government company	Managerially very weak	A consultant has been appointed to suggest a study plan
							Interface with Government: Very low		W: No enterprise element	Lacks enterprise orientation	

									O: Huge demand	Finances are in shambles	
									T: Competition form private sector poultries		

Name of the enterprise	Form of Organisation	**Market Structure (MS) and Activities(A)**	**Financial Status and Physical performance**	Manpower	Social purpose	**Financial System & management and interface with Government**	Performance improvement plan	SWOT Analysis	Problems encountered	Strategic inititatives
Sikkim Hatchery Ltd (1994)	Government Company with private sector participation (Sri Venkateshwara Hatcheries	MS: Competitive A: Poultry breeders, Produces commercial chicks, Supply/marketing of chicks and Supply of Poultry feed	Loss making , Dearth of working capital, Net worth erosion, and Contingent liabilities	15 Mg 1, Nml 2, Casual 15	To increase the income of grass root people / farmers through poultry farming	Budgeting, internal audit, costing and pricing systems are extension of the government systems	A consultant has been appointed to prepare a turnover project	S: A government company		Working capital is being sought from financial institution/ government
			case by SBI in debt recovery tribunal of Rs 0.40 crore			Interface with Government : **Very low**		W: No enterprise element		
								O: Huge demand		
								T: Competition form private sector poultries		

Name of the enterprise	Form of Organisation	**Market Structure (MS) and Activities(A)**	**Financial Status and Physical performance**	Manpower	Social purpose	**Financial System & management and interface with Government**	Performance improvement plan	SWOT Analysis	Problems encountered	Strategic inititatives
SITCO (1976)	Govt. Company	MS: Competitive A: Digital and Analog Watches and TV Speakers	Loss making company, negative contribution, high administrative and interest costs, decline in capital employed, and negative reserves and surpluses	146 Mag. 22 Nmgl 87 Casual 37	Employment generation : has given employment to 1000 people since inception (90 per cent are women)	Rudimentary budget, and internal audit, Cost management is non-existant , Satisfactory middle management, Govt. dominated Board and Part-time Directors representing professionals are nominal in numbers	115 employees have availed of VRS costing Rs 272 lakhs	S: 28 year old company having core competency in homology and electronics field, Association with industrial giants like HMT, BEL, BPL, skilled manpower, good industrial environment, one of the few watch companies enlisted with the CSD of the Defence Ministry for the supply of watches and Availability of ample infrastructure, buildings, space	Timely release of share capital from Gos	Rs 2 crore spent on additional machinery
			Physical performance : 30 per cent capacity utilised		National integration	Interface with Government : Very low	Brand promotion	W: Locational disadvantage, Limited brand awareness of products and No R&D	Sundry Debtors of 2.5 crores to be writtenoff	Restructuing to add to the wage bill to Rs 30 Lakhs per annum as 15 new jobs will be created.
					Promote industrial culture		Channel management	O: Workers require further training and skill enhancement and Climatic conditions suitable for electronics, IT, watch and other precision industries	Shortage of working capital to supply speaker to BPL/ Onida and to increase th production of speakers	Increase in market share through CSD and direct marketing
								T: Competition from organised, unorganies and overseas competition		VRS to about 40 employees estimated to cost Rs 1.50 crore
										Activity restructuring: launching of higher variants and models of watches, time pieces and clocks, enlargement of product profile management system
										Induction and training of required manpower in design and development area of speakers and watches

										Manpower restructuring : Training of manpower on shop floor , giving VRS to around 40 excess employees
										Technological Restructuring: Setting up of desing and development wing for speakers and sourcing of approproate required technology
										Financial Restructuring: Release of share capital toward product / activity restructuring and repayment of bank loans and write-off bad debts

Name of the enterprise	Form of Organisation	**Market Structure (MS) and Activities(A)**	**Financial Status and Physical performance**	Manpower	Social purpose	**Financial System & management and interface with Government**	Performance improvement plan	SWOT Analysis	Problems encountered	Strategic inititatives
Government Fruit Preservation Factory (1965)	Govt. Company	MS: Competitive A: Produces Squashes, Juices, Jams, Pickles, Sauces and Tinned Fruits	Decline in working capital, Profit earning company, and Instable sales	60 Mgr 3, Nml 6,Casual 3	Distribution of Seeds and seedlings to local farmer, Providing training to locals to make pickels and jams and to provide training to farmers in farming baby corn, dallae chilles etc	Budgeting, MIS and pricing are non existant	The factory is running on adhoc basis	S : Brand Sikkim Supreme is the major strength	Exemption from sales tax and income tax not given	GoS may either accept turnover plan by GoI or Privatise / going for closure
		New products added includes babycorn, sweet corn, dallae chilly in veniger	Physical performance : 15 percent capacity utilised and			Interface with Government : Poor		W: Lack of continuity of policy	No purchase preference by the government	
								O : Lower customers and market penitration	Promised budgetory support not extended	

								T: Competition and inadequate market development and promotion	Turnaround plan approved by Govt. of India on matching basis not honoured by GoS	

Name of the enterprise	Form of Organisation	**Market Structure (MS) and Activities(A)**	**Financial Status and Physical performance**	Manpower	Social purpose	**Financial System & management and interface with Government**	Performance improvement plan	SWOT Analysis	Problems encountered	Strategic inititatives
SIDICO (1977)	Govt. Company	MS: Monopoly A: Financing small, medium and large units	Declining accumulated losses , Currently profit making and Declared dividends in 1996-97 and 2001-02	34 Mg 19, Nml 15	Industrial promotion and employment generation through assisted units	Cost management non existant , weak internal audit, Poor monitoring of assisted units, Weak project appraisal system, decision making power vests with board , No manpower planning and no manpower training and development	Setting up guideline/ counseling cell	S: The only development financial institution. No default in repayment of re-finance. , Track record of profit making from the last five years, High rate of interest	Lack of viable proposals	Debt Free company
						Interface with the Government : Moderate	Improving recoveries	W: Decline in equity support from Govt,, high administrative cost	Investment in assisted units of Rs 2.58 crore in equity , Generation WEBCOM not enerati any returns	Promoting new Generation industries such as Software Park
								O: Rapid, economic and industrial development of the state	large number of sutis field under SPDRA are pending	extending State Financial Act s29,30 and 31
								T: Competition with commercial banks	High administrative costs	Extending coverage to ianncia, housing , poultry, piggery and diary sectors

									Discontinuation of disbursement of central subsidies	Involvement in infrastructure development
									Competition from NEDFC and SABCCO	enhancing HRD competencies

Name of the enterprise	Form of Organisation	**Market Structure (MS) and Activities(A**	**Financial Status and Physical performance**	Manpower	Social purpose	**Financial System & management and interface with Government**	Performance improvement plan	SWOT Analysis	Problems encountered	Strategic initiatives
State Bank of Sikkim (1968)	Public Corporation	MS: Non-competitive A: Commercial lending, investment and treasury functions	Currently profit making	271 MG 50, NML 221		Rs 6.81 crore loans are being shown due in the name of deceased borrowers	27 employees availing of VRS costing Rs 82 lakhs of which Rs 80 lakhs given by GoS	Own charter Bankers to GoS	Tough competition from commercial banks	Sound corporate vision of striving and acheving premier position as a superier financial institution
			Physical performance: High advances, major part of equity contribution from GoS, Good leverage, Huge losses on account of Interest waver scheme amounting to Rs. 25 crore , Increasing trend in business , Positive contribution and gross margin and low Capital adequacy			Outstanding of loan of Rs 2.05 crore in the name of officers and staff of SBS. Rs. 36.03 lakhs is outstanding against 1expired employees		Better understanding of the local economy	High administrative costs	Concentration on other income
						Poor security systems leading to non-recovery of loans of Rs 4 crore under SPDRA		Lack of adequate equity	Poor services offered by non trained staff	New schemes such as loans to Govt. employees without any collateral upto Rs 10 lakhs

						Only Rs 2 lakh spent on advertisement during 2003-04		Untrained manpower	No networking	Training the employees strength. 70-80 persons could be provided VRS subject to appointment of 20 qualified persons.
						Financial and administrative powers delegated upto the power of GMs'		Non computerisation	Very poor equity base of Rs 0.58 lakhs against the minimum expected of Rs 30 crore	VRS cost Rs. 5 to 6 crore @ Rs 7 lakh per employee
						No budgeting , pricing and training systems		Bubbling economy and plentiful opportunities	No monitoring	
						Interface with government : good interaction		Competition from other commercial banks		

Name of the enterprise	Form of Organisation	**Market Structure (MS) and Activities(A**		**Financial Status and Physical performance**	Manpower	Social purpose	**Financial System & management and interface with Government**	Performance improvement plan	SWOT Analysis	Problems encountered	Strategic initiatives
State Trading Corp. (1972)	Public Corporation	MS: Competitive A: Supply of all types of materials required by Govt. departments		Debt Free, Sound Reserves, Profit making, accumulated profits, and Positive networth	108, ML8 NML 70 casual 27	Protocol duties of State Govt. at Kolkatta , renders assistance to Sikkimies patentis at Kolkata	Internal Audit, Pricing and MIS exists in rudimentary form, MIS, Budgeting does not exist, Government nominees dominate the Board, Dividend paying company	Improving communication with Govt. departments	S: Procurement backup in terms of public corporation	Competition from private suppliers	Closure of Kolkata and Slinguri branches
							Interface with government : Low	Controlling administrative expenses to work within margins offered by suppliers	W: Non cooperation of Govt. departments	Govt. departments prefer to place direct orders on suppliers	Encouraging surplus employees to take VRS

								Better stock keeping	O: Burgeoning demand for supplies	Non payment by Govt. department	Fostering transparency in procurement of proprietary and non -proprietary items
									T: Response time to fulfill the demand and payments from Govt. departments	Lack of sensitization about supply chain management	

Name of the enterprise	Form of Organisation	**Market Structure (MS) and Activities(A)**	**Financial Status and Physical performance**	Manpower	Social purpose	**Financial System & management and interface with Government**	Performance improvement plan	SWOT Analysis	Problems encountered	Strategic initiatives
Khadi and Village Industries Board (1978)	Public Corporation	MS: competitive A: Engaged in production and sale of khadi and village industry products	Loss making, decline in turnover, high direct costs	83 Mg 14, NML 65 Part-time 100	Provides self employment in rural area	Govt nominees led Board, no budgeting, pricing , costing and internal audit systems, no training for employees and no R&D	Proposes to offer VRS 40 more persons costing Rs 1.60 crore	S: Old legacy from Chogyal days	Dearth of money for expenditure, poor advertisement, Un-remunerative prices to weavers, spinners and rural artisan, and no money to pay gratuity to retired people	VRS to 16 employees Rs 0.65 crore
			Physical performance: 20 % capacity used			Interface with government : low		W: Completely dependent on government, large unemployed rural masses and young fork not taking to Charka and village industries		new sales outlets, and proposes to use other channels of sales
										Technology upgradation for Charka and Kargha costing Rs 0.12 crore
										Model employership will cost Rs 1.06 crore on CPF, VRS, pension, repairs and renovations

										EDPs for borrowers under margin money scheme from banks
										Efforts for financial assistance from KVIC for borrowers

Name of the enterprise	Form of Organisation	**Market Structure (MS) and Activities(A)**	**Financial Status and Physical performance**	Manpower	Social purpose	**Financial System & management and interface with Government**	Performance improvement plan	SWOT Analysis	Problems encountered	Strategic initiatives
Sikkim Consumer Co-operative society (1975)	Co-operative Society	MS: Competitive A: supply of stationeries, cookeries and sundry items	Profit making	27 Mg 2,Nml 22, Causal 3	To provide right services at right time	A tentative budget is prepared every year and internal audit is prepared every year	None	Purchase preference for consumer goods	Competition with STC, SIMFED, Denjong Co-operative Society and	Trying to become whole sale agent of several companies
					To act as a countervailing force on price fund	No costing and MIS systems		Outstanding of government departments of Rs 1.19 crore	Inadequate working capital	
						Government dominated Boards		Conversion into a federation to act as a whole sale agency f controlled and non controlled agencies	Requirement of office premises	
						Interface with government: moderate		Dependence on government for sales		

Name of the enterprise	Form of Organisation	**Market Structure (MS) and Activities(A)**	**Financial Status and Physical performance**	Manpower	Social purpose	**Financial System & management and interface with Government**	Performance improvement plan	SWOT Analysis	Problems encountered	Strategic initiatives
Sikkim Co-operative Bank (1975)	Co-operative Society	MS: Non-Competitive A: Serve as an Apex organization of co-operative societies, raise deposits from members and to do business as per Section 5 and 6(1) of BRA 1949			Help the farmers in agricultural operations	Internal audit, Budgeting systems exits but in a rudimentory form, Pricing and MIS systems do not exists and Lack of computerisation	Greater reliance on Crop Insurance			Networking with NABARD for disbursements under non-firm sector
					Balance agricultural development in the four districts	Interface with government : Satisfactory				Developing 10 MPCS under pilot project from NABARD and MPCS
										Good recovery system

Name of the enterprise	Form of Organisation	**Market Structure (MS) and Activities(A)**	**Financial Status and Physical performance**	Manpower	Social purpose	**Financial System & management and interface with Government**	Performance improvement plan	SWOT Analysis	Problems encountered	Strategic initiatives
SIMFED	Co-operative Society	MS: Competitive A:			Ensuring price support to cash crop farmers	Budgeting, costing , pricing and internal audit systems are ineffective		Deals with cash crops, confined to marketing of cash crops, processing units for cash crops, and poor infrastructure and systems	Poor working capital base,	Diversification through : Ginger and cardimon processing plants, corporative tourism, co-operative manufacturing unit and becoming C&F of agent for manufacturers
						Computerisation of accounts of purchase and sales doe not exists			Inadequate infrastructure, stock in trade and marketing skills	Conducts open auctions for cardimum
						Interface with govt. : low			Failure as price leader	acutions in different districts

									Ban on usage of chemical fertilizer	Marketing intelligence for developing comprehensive plans
										One time government grant of Rs 10 crore towards working capital
										Allotment of land from government towards infrastructure development
										Computerisation at the cost of Rs 2 crore to be granted by the government

Name of the enterprise	Form of Organisation	**Market Structure (MS) and Activities(A)**	**Financial Status and Physical performance**	Manpower	Social purpose	**Financial System & management and interface with Government**	Performance improvement plan	SWOT Analysis	Problems encountered	Strategic initiatives
Sikkim National Transport (1944)	Departmental Enterprise	MS: competitive A: Fulfill transportation needs of all government departments , central agencies , army and rural and urban masses through the fleet of trucks and buses	Continuously loss making, negative internal resource generation, negative plan contributions, and declining earning per bus km	957 Mg57, Nml 900	To fulfill the transport needs of army and rural and urban masses	Being an extension of govt. department, no autonmous financial and management systems, ineffective pricing systems, and imbalance fare structure,		Long experienced department	Increase in bus staff ratio of 1:9.2	GoS is contemplating to bring down the age of the fleet and also enlarge it
			Physical performance : 45% occupancy ratio			Customer relationship management non existant		Appendage of GoS suffering from Govt. systems and procedures	Low staff productivity of 16.26 km per day per worker	GoS is contemplating to introduce VRS to reduce unwarranted staff

						Interface with government: moderate		Incapacity to serve the increasing transportation needs in a customer friendly manner	Declining fuel efficiency of 3.05 km per liter	
									Age profile of buses and trucks is highly unfavourable as 106 buses out of 192 on march 31 , 2003 were 10 + years old	
									Concessional/ free travel facilities as directed by GoS	

Name of the enterprise	Form of Organisation	Market structure	**Financial Status and Physical performance**	Manpower	Social purpose	**Financial System & management and interface with Government**	Performance improvement plan	SWOT Analysis	Problems encountered	Strategic initiatives
State Energy and Department of Power (1967)	Departmental Enterprise	MS: Noncompetitive A: Provide power to domestic, commercial, agricultural and industrial sectors, Provide power to public establishments and facilities and promote rural electrification	Continuously heavy loss making, negative internal resource generation, declining earning per bus km and price-cost relationship	2717 Mg 100, Nml 2617	Power to rural areas, agriculturists and industrial units	25 % capacity utilisation and load factor 40 %	Focusing on project management	Tremendous potential of growth and engine for development	High T&D losses and low tariff	Reduction of T& D losses from 52 % to 38 % by 2006 - 07 , 15 % by 2011-12
						Interface with government : very high			Highly overstaffed on the administrative side but understaffed on the technical side	Increase in tariff to cover costs
									Conflict between the role of department and the State Power Devel. Corporation	Reorganisation through SBIs for generation, transmission and distribution

										corporatisation to setup 3 companies
										Promoting IPPs in power generation through BOAT / BOOT / DBOAT
										Setting up of an independent Tariff Regulatory Authority
										100 per cent metering
										T&D lines in the state are being modernaised and aegumented
										IPPs' participation hydel power generation about 25 mw through joint ventures to ensure 14 % return and 10-12 % free power

Name of the enterprise	Form of Organisation	**Market Structure (MS) and Activities(A)**	**Financial Status and Physical performance**	Physical performance	Manpower	Social purpose	**Financial System & management and interface with Government**	Performance improvement plan	SWOT Analysis	Problems encountered	Strategic inititatives
State Power Dev. Corp. (1998)	Government Company	MS: Non Competitive A: Exploit state hydro power potential, undertake pre-feasibility studies of Hydro power Projects, Survey and investigating work relating to hydro power projects	Inadequate equity support, high salaries, dues on purchase of power of Rs 8.5 crore			Generating power at economical rates for the consumption of masses	Interface with government: low	VRS for excess employees, Capacity building process	S: promoting hydro power projects through public private partnership, Experienced Manpower	Lack of seed money, non-extensions of govt. guarantees and retention of micro, mini and small hydro power projects	Financial restructuring of Energy and power department
		Other activities; Arranging finances for the power projects through (PFC,IRDA,NABARD, ADC) and Generation of Hydro Power	Pending bills of supplier/ contractor of Rs 9.5 crore						W: Weak equity base		Transfer of assets , liabilities and personnel of energy and power department

								O: Becoming a hydro power consultancy and power generation		To make the corporation sustainable GoS may pass on free power from the existing and new hydro power project till it attains break - even
								T: Govt. policy to promote IPPs and indessition on retaining / divesting power departments of power project		

Name of the enterprise	Form of Organisation	**Market Structure (MS) and Activities(A)**	**Financial Status and Physical performance**	Manpower	Social purpose	**Financial System & management and interface with Government**	Performance improvement plan	SWOT Analysis	Problems encountered	Strategic initiatives
Sikkim Co-operative Milk Union Ltd (1980)	Co-operative Enterprise	MS: Competitive A: Milk procurement, cattel development, feed and fooder distribution, milk processing and milk market	Loss making company, receding net worth, negative working capital,	83 Mgl. 7 and Nmgl 60, Casual 16	uplift socio-economic conditions of the milk producers	Vision : Diary farmers' prosperity through consumer satisfaction and good and effective MIS system	Perodic review of key performance indicators	S: Abundant live stock wealth, established milk producers co-operative society, established network of milk retail outlet and good networks of retail products	Inadequate advertising expenses	Product portfolio restructuring by adding new products such as Panner, Chrpi, Cream,
			Physical performance: 60 % capacity utilisation		Enhance the milk yeild of the milch animals	Right sizing implemented by giving VRS to 22 employees costing 1.13 crore		W: High transportation and establishment costs; un trained manpower	High establishment cost	Market Restructuring : market milk distribution is been outsourced, milk parlours in Gangtok and other towns , better packaging of milk and milk products
					Provide rural employment	Competitive prices,		O: Capability to produce milk and milk products, boost to export potential due to opening of Nathulla trade route, abundant fodder grass / tree fodder	High transportation cost	Financial Restructuring: Internal audit systems to be introduced

					Capacity building of farmers	Inadequate costing and internal audit system		T: Local milk vendors, inroads into the local market by mega co-operatives and MNCs	Low per capita milk production	Manpower restructuring: VRS to surplus employees and appointment of qualified manpower, more vigourous capacity building programmes
						Interface with the Government : moderate			One-time collection of milk	Technological Restructuring : effective cold chain maintenance, automation of milk testing procedures, computerisation of all at work levels
									closer of milk societies in monsoons	
									Entry of MNCs and major co-operatives	
									Poor and eritic power supply	

Annexure 8.7 Subsidies of SLPEs

Name of the enterprise	2001-02	2002-03	2003-04
SIDICO	0	0	**0**
State Bank of Sikkim	0	0	**0**
Sikkim State Co-operative Bank	0	0	**0**
Sikkim Jewels	0.24	0.24	**0.24**
Sikkim Hatchery	0	0	**0**
Sikkim Poultry	0	0	**0**
Sikkim Precision Industries	0	0	**0**
SITCO	0	0	**0**
Tea Board of Sikkim	0	0	**0**
Sikkim Milk Union	0.62	0.25	**0.34**
Govt. Fruit Preservation Factory	0	0	**0**
Sikkim Tourism	0	0	**0**
Sikkim Handloom and Handicrafts Dev. Corp. Ltd	0	0	**0**
Khadi and Village Board	0	0	**0**
State Trading Corp.	0	0	**0**
Sikkim Consumer Co-operative Soceity	0	2.98	**0**
SIMFED	0	0	**0**
Denjong	0	0	**0**
Sikkim Nationalised Transport Corp.	0	0	**0**
State Energy and Department of Power	0	0	**0**
Sikkim Power Dev. Corp.	0	0	**0**
SABCCO	0	0.34	**0.26**
Total	**0.86**	**3.81**	**0.84**

0-not available
(Source : Annexure 8.9)

Annexure 8.8
Questionnaire: Financial and other related Information on SLPEs

GENERAL INFORMATION

01a. Name of the enterprise:

(Please write in BLOCK LETTERS)

01b. Date of formation

01c. Name and Designation of the Chief Executive Officer:

02. Address:

____

Pin Code: ___________
Tel: ___________ Fax: ____________ Telex: ____________
E-mail: ___________________

03. Location of Registered Office:

04a. Major lines of activity (put √ mark against the activitiy)

Manufacturing, Trading & Services, Financial, Promotional Utility Welfare

[ ] [ ] [ ] [ ] [ ] [ ]

04b. Major reasons for establishment:

04c. Description of the Product

05a. Year of promotion: _____________

05b. If there was a time lag, please give reasons:

06. Holding company: __________ Subsidiary company: _________

07. Objectives:

08. Form of organisation (Please "tick"):

- Government company
- Public corporation
- Statutory Board

- Statutory or regulatory authority
- Departmental enterprise
- Cooperative society
- Registered society

09a. Give details of Market structure: Monopoly/Competitive

II GROWTH AND DEVELOPMENT

1. Periodisation (please describe in terms of specific landmark development)

2. Salient Features

III SOCIAL PURPOSE

1. Major line of social activities undertaken by the organisation

2. Details on outflow of funds for the social activities

S.N	Details	2001-02	2002-03	2003-04	2004-05	Projected

IV FINANCIAL INFORMATION

(Rs. in lakhs)

S.N	Details	2001-02	2002-03	2003-04	2004-05	Projected
1.	Equity					
2.	Longterm debt					
3.	Total Investment					
3.	Reserves					
4.	Surplus/losses (-)					
6	Current Assets					
7	Current liabilities					
8	Working capital					
9	Capital employed (4+8) (This may be calculated on alternate basis from the liabilities route)					
10	Net Sales / Turnover					
11	Accumulated Losses					
12	Net Worth					
13	Other income					
14	Total income					
15	Direct Costs					
16	Contribution (10-15)					
17	Gross Margin					
18	Cost of Sales					
19	Operating Profit					
20	Interest					
21	Profit Before Tax					
22	Tax					
23	Net Profit					
24	Subsidies 1. Capital 2. Revenue 3. Managerial 4. Hidden 5. Total					
25.	Guarantees					
26.	Contingent Liabilities					
27.	Liabilities to be settled					

28.	Valuation of Enterprise 1. Land 2. Plant Machinery 3. Stocks 4. Patents 5. Liabilities 6. Total					
29.	Court Cases					
30.	Contribution 1. Interest 2. Dividends 3. Excise 4. Surpluses 5. Exports 6. Sales Tax 7. Depreciation 8. Write-Off					

V. PHYSICAL PERFORMANCE

1. Installed Capacity
2. Capacity Utilised
3. Manpower

    Managerial Non-Managerial Casual

4. New Products/ Services Added
5. No. of employees availing VRS
6. Costs incurred on VRS
7. Costs reimbursed on VRS

VI ORGANISATIONAL STRUCTURE

1.	Size of Board					
	a) Government nominee(s)					
	b) Nominee(s) of Financial Institutions					
	c) Nominee(s) of Workers / Managers					
	d) Nominee(s) of Foreign Collaborators					
	e) Functional directors					
	f) Professional part-time directors					
	g) CMD					
	h) Total					
	(Sanctioned strength of Directors)					
	i) Tenure of the Board of Directors					
2.	What is your Organisational Chart?					
3.	Extent of Delegation & Decentralisation					
4.	Do you practice Internal Audit					
5.	Do you have Budgeting Process					
6.	What are your Investment Policies					
7.	What Pricing methods are followed?					
8.	Do you have Man Power Planning & Performance Appraisal					
9.	Training Programmes					
10.	Status of R&D					
11.	What Performance Evaluation Methods are followed?					

VII SWOT Analysis

1. Strengths

2. Weaknesses

3. Opportunities

4. Threats

VIII RESTRUCTURING

Give details on the following aspects:

1. Product portfolio

2. Market Restructuring

3. Financial Restructuring

4. Manpower Restructuring

5. Organisational Restructuring

6. Technological Restructuring

1. What is the average tenure for the Board of Directors?

2. What is the existing Compensation Package offered to the CEO and Board of Directors ?

VI. STRATEGIC INFORMATION

1.Is your enterprise involved in:
- (i) Restructuring
- (ii) Disinvestment
- (iii) Privatisation

2. Indicate the financial costs of (including VRS, Settlement of Liabilities, rate of sale of assets, etc)
- (i) Restructuring
- (ii) Disinvestment
- (iii) Privatisation

3. Indicate the social costs of:
- (i) Restructuring
- (ii) Disinvestment
- (iii) Privatisation

4. Provide the proposed steps for:
- (i) Restructuring
- (ii) Disinvestment
- (iii) Privatisation

1. What is the market structure of the organisation?
2. Please provide the Company's Profile?
3. Give Details on Foreign Collaborations.
4. What is the present state of Technology?
5. What is the extent of spending on Advertising Expenses?
6. What is the share in Exports & Imports?

7. Please give Details on any Mergers & Acquisitions taken place?
8. What is your Corporate Vision?

Please provide exhaustive notes on:-

1. Valuation of assets.

2. Privatisation, closure and restructuring of activities, divisions, products / services, enterprise.

3. Problems faced by the enterprise.

4. How the enterprise proposes to meet the resource gap in the future due to the reduction in budgetary support by the Government.

5. Details of VRS in existence at present, and details concerning the number of employees accepting VRS, total incidence of VRS in monetary terms, and future plan of action.

Annexure 8.9 Schedule on Internal Organisaiton and Structure

SECTION 1: BACK GROUND OF THE ENTERPRISE

Table:1 Back Ground

List of Firms	Objective	Legal form	Uni-Plant or Multi-Plant	Capacity		Major products/ Activities	Turnover : product wise or Activity wise	Employee Strength	Market Structure	
				Installed	Utilisation %	Managerial	Non-Managerial	Total	% of Mgrl.to Total	% of Non-Mgrl. To Total

SECTION 2: ORGANISATION STRUCTURE

Table 1: Number & Tenure of the Board

List of firms	Number of Board of Directors										Average Tenure of the Board							
	Initially					2003-04					Initially				2003-04			
	1	2	3	4	T	1	2	3	4	T	1	2	3	4	1	2	3	4

Note:1- Government Officials (Bureaucrats), 2- Politicians, 3- SLPE Personnel, 4- Labour representative
5- Total

Table –2 Changes in CEO and Functional Directors

List of Firms	Number of Changes in Chief Executive Officers(CEOs) & Functional Directors(FDs)									
	CEO	FD	CEO	FD	CEO	FD	CEO	FD	CEO	FD

Table: 3 Frequency of Changes

List of Firms	Chief Executive Officer				Functional Director			
	Once in 3 yrs.	Once in 2 yrs.	Once in 1yr.	Twice or more in One Yr.	Once in 3 yrs.	Once in 2 yrs.	Once in 1 yr.	Twice or More in One Yr.

Table 4: BOD Meeting and % of Attendance

List of Firms	92-93				93-94				94-95				95-96				96-97			
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4

Note: 1-Total Number of Directors, 2- Total BOD Meetings Held, 3- Number of Directors Attended, 4- % of Attendance - (3÷1) x 100

Table: 5 Decision Making Powers – Pricing

List of Firms	Govmnt. (✔)			BoD (✔)			CEO (✔)			Others (✔)		
	1	2	3	1	2	3	1	2	3	1	2	3

Note: 1- At the Time of Inception, 2- Currently, 3- Year When Changed

Table: 6 Decision Making Powers – Investment

List of Firms	Govmnt. (✔)			BoD (✔)			CEO (✔)			Others (✔)		
	1	2	3	1	2	3	1	2	3	1	2	3

Note: 1- 1-At the Time of Inception, 2-Currently, 3-Year When Changed

Table: 7 Decision Making Powers – Hiring of Labour/ Officials

List of Firms	Govmnt. (✔)			BoD (✔)			CEO (✔)			Others (✔)		
	1	2	3	1	2	3	1	2	3	1	2	3

Note: 1-At the Time of Inception, 2-Currently, 3-Year When Changed

Table: 8 Decision Making Powers – Retrenchment/ Suspension of Labour /Officials

List of Firms	Govmnt. (✔)			BoD (✔)			CEO (✔)			Others (✔)		
	1	2	3	1	2	3	1	2	3	1	2	3

Note: 1-At the Time of Inception, 2-Currently, 3-Year When Changed

Table: 9 Decision Making Powers – Collaboration with Foreign Firms

List of Firms	Govmnt. (✔)			BoD (✔)			CEO (✔)			Others (✔)		
	1	2	3	1	2	3	1	2	3	1	2	3

Note: 1-At the Time of Inception, 2-Currently, 3-Year When Changed

Table:10 Decision Making Powers-Collaboration with Other Firms within Country

List of Firms	Govmnt. (✔)			BoD (✔)			CEO (✔)			Others (✔)		
	1	2	3	1	2	3	1	2	3	1	2	3

Note: 1-At the Time of Inception, 2-Currently, 3-Year When Changed

SECTION 3: GOVERNMENT CONTROL

Table:1 Interaction of CEO/Senior Level Officers with Political Entities

List of Firms	Ministers			Ministers of State			MLAs			Chairperson (If Political)			Others		
	Last I mnth.	Last 6 mnths.	Last 1 yr.	Last I mnth.	Last 6 mnths.	Last 1 yr.	Last I mnth.	Last 6 mnths.	Last 1 yr.	Last I mnth.	Last 6 mnths.	Last 1 yr.	Last I mnth.	Last 6 mnths.	Last 1 yr.

Table:2 Instructions from Political Entities to CEOs/ Senior Officers(SOs)

List of Firms	Ministers			Ministers from State			MLAs			Chairperson (If Political)			Others		
	Last I mnth.	Last 6 mnths.	Last 1 yr.	Last I mnth.	Last 6 mnths.	Last 1 yr.	Last I mnth.	Last 6 mnths.	Last 1 yr.	Last I mnth.	Last 6 mnths.	Last 1 yr.	Last I mnth.	Last 6 mnths.	Last 1 yr.

Table:3 Frequency of Receiving Instructions (Past Six Months)

List of Firms	Pricing					Investment					Personnel selection					Purchase of Inputs					Other daily Decisions				
	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5

Note: 1-Ministers, 2- Ministers of State, 3- MLAs, 4-Chairpersons (Political), 5- Others

Table:4 Interaction of Enterprise with Govt. Officers

List of Firms	Rank-1			Rank-2			Rank-3			Rank-4		
	Last 1 Mnth.	Last 6 Mnths.	Last 1 year	Last 1 Mnth.	Last 6 Mnths.	Last 1 year	Last 1 Mnth.	Last 6 Mnths.	Last 1 year	Last 1 Mnth.	Last 6 Mnths.	Last 1 year

Table: 5 Receipt of Information from Government Officers

List of Firms	Rank-1			Rank-2			Rank-3			Rank-4		
	Last 1 Mnth.	Last 6 Mnths.	Last 1 year	Last 1 Mnth.	Last 6 Mnths.	Last 1 year	Last 1 Mnth.	Last 6 Mnths.	Last 1 year	Last 1 Mnth.	Last 6 Mnths.	Last 1 year

Table: 6 Instructions Received from CEO from Government Officers Leading to Decision Making

List of Firms	Pricing				Investment				Personnel Selection				Purchase of Inputs				Other Daily Decisions			
	R 1	R 2	R 3	R 4	R 1	R 2	R 3	R 4	R 1	R 2	R 3	R 4	R 1	R 2	R 3	R 4	R 1	R 2	R 3	R 4

Note: R1, R2, R3 and R4 denote the different ranking Government Officers.

SECTION 4: FINANCIAL MANAGEMENT

Table: 1 Budgetary Support from Government & Others (Rs. in lakhs)

List of Firms	Initial			92-93			93-94			94-95			95-96			96-97		
	G	O	T	G	O	T	G	O	T	G	O	T	G	O	T	G	O	T

TABLE: 2 Government Equity Extended to Debt Equity (Rs. in Lakhs)

List of Firms	92-93			93-94			94-95			95-96			96-97		
	GE	TE	%	GE	TE	%	GE	TE	%	GE	TE	%	GE	TE	%

Source: GE- Government Equity, TE- Total Equity of share holders, % - (GE/TE) x 100

Table: 3 Long Term Debt as % to Total Debt

List of Firms	92-93			93-94			94-95			95-96			96-97		
	LD	TD	%	LD	TD	%	LD	TD	%	LD	TD	%	LD	TD	%

Debt: LD- Long Term Debt, TD- Total Debt, % - LD/TD x 100

Table: 4 Subsidy

List of Firms	92-93					93-94					94-95					95-96					96-97				
	C	R	M	H	T	C	R	M	H	T	C	R	M	H	T	C	R	M	H	T	C	R	M	H	T

Subsidy: C- Capital , R- Revenue, M- Managerial, H- Hidden* , T- Total
* includes concessional interest rates charged by Govt., interest free loans extended by Govt., Dividends foregone by the Govt., plant & land given by Govt. etc.

Table: 5 Cash Profit / Losses

List of Firms	92-93	93-94	94-95	95-96	96-97
	Rs.	Rs.	Rs.	Rs.	Rs.

Table: 6 Gross Margin

List of Firms	92-93				93-94				94-95				95-96				96-97			
	GM	% GM	% OM	SAT y/n	GM	% GM	% OM	SAT y/n	GM	% GM	% OM	SAT y/n	GM	% GM	% OM	SAT y/n	GM	% GM	% OM	SAT y/n

GM – Gross Margin , % GM - % of Gross Margin, % OM – Optimal % of GM,
SAT- Satisfied with the % of GM, Yes or No?

Table: 7 Cost Management

List of the Firms	Are your Labour Costs:			Have You Introduced/ Undertaken the Following: Yes(y) or No(n)							
	High/ Low	Comparable to Similar Enterprises in Private Sector (✓)	What is the Ideal % of Spending on Labour?	Cost Sheet	Standardised your Costs	Variance Analysis	Cost Control System	Cost Reduction Programme	ABC	EOQ	VE

ABC – ABC analysis (Inventory Control), EOQ – Economic Order Quantity (Inventory Control) , VE – Value Engineering

Table:8 Budgetary Support from Government, Banks and Financial Institutions **(Rs. in Lakhs)**

Firms	1992-93					1993-94					1994-95					1995-96					1996-97				
	GE	B/FI	O	TE	%GE	GE	B/FI	O	TE	%GE	GE	B/FI	O	TE	%GE	GE	B/FI	O	TE	%GE	GE	B/FI	O	TE	%GE
FINANCIAL																									
COMMERCIAL																									
PROMOTIONAL																									

GE: Government Equity, B/FI: Banks/ Financial Institutions, O: others, TE: Total Equity, % GE : % of GE to TE.

Table: 9 Hidden Subsidies (Rs. in Lakhs)

Firms	**1992-93**	**1993-94**	**1994-95**	**1995-96**	**1996-97**	**Total**
FINANCIAL						
SUB						
COMMERCIAL						
SUB						
PROMOTIONAL						
SUB						
TOT						

Table: 10 Long Term Loans From Government, Banks/FIs (**Rs. in lakhs)**

F	**1992-93**				**1993-94**				**1994-95**				**1995-96**				**1996-97**			
I R M S	**G**	**B**	**T**	**%**	**G**	**B**	**T**	**%**	**G**	**B**	**T**	**%**	**G**	**B**	**T**	**%**	**G**	**B**	**T**	**%**
FINANCIAL:																				
COMMERCIAL:																				
PROMOTIONAL:																				

SECTION 5: SIGNIFICANT CHANGES

Table: 1 Significant Changes

List of Firms	**Restructuring**			Professionalisation of Board (y or n)	Disinvestment/ Privatisation/ Others
	Financial (y or n)	Labour (y or n)	Organisational (y or n)		

Annexure 8.10 Valuation of SLPEs as on March 31, 2004

Name of the enterprise	Land & Building	Plant & Machinery	Stocks	Sundry Debtors	Others	Cash Bank balance and investments	Sundry creditors	Total
SIDICO	0.21	0	0.82	0	10.30	7.06	0	**18.39**
State Bank of Sikkim	10.02	0	0	21.10	0	185	0	**216.12**
Sikkim State Co-operative Bank	-	-	-	-	-	-	-	**-**
Sikkim Jewels	0.27	0.50	1.52	0.65	0	0	0.27	**2.67**
Sikkim Hatchery	1	0.75	0.5	0.25	0	0	0	**2.5**
Sikkim Poultry	0.7	0	0	0	0	0	0	**0.7**
Sikkim Precision Industries	0.69	2.30	0.17	0.08	4.38	0	0	**7.62**
SITCO	**0.71**	**14.29**	4.57	2.59	0.07	0	0.4	23.15
Tea Board of Sikkim	4.35	0	0	0	0	0	0	**4.35**
Sikkim Milk Union	0.05	0.80	0.13	0	0	0	0	**0.98**
Govt. Fruit Preservation Factory	1	1.50	0.50	0.12	0	0	0	**3.12**
Sikkim Tourism	3.27	0	0	0.25	0	0	2.30	**3.52**
Sikkim Handloom and Handicrafts Development Corp.	0.93	0.22	0.08	0	0	0	0	**1.23**
Khadi and Village Board	0	0	0	0.58	1.45	0	0	**2.03**
State Trading Corp.	0.03	0	3.81	0	28.66	0	0	**32.5**
Sikkim Consumer Co-operative Society	0.9	0.20	0.40	0.82	0	0	0	**2.32**
SIMFED	-	-	-	-	-	-	-	**-**
Denjong	0.52	0	0.03	0	0.16	0	0	**0.71**
Sikkim Nationalised Transport Corp.	84.78	22	3	3.50	6.05	0	2	**117.33**
State Energy and Department of Power	-	-	-	-	-	-	-	**-**
Sikkim Power Dev. Corp.	-	-	-	-	-	-	-	**-**
SABCCO	0	0	0	0	1.43	0	0	**1.43**
Total	**109.22**	**43.48**	**14.71**	**29.94**	**42.20**	**192.06**	**4.97**	426.50

- Data not supplied

Annexure 8.11 Restructuring Cost as on March 31, 2004 ***(Rs in crore)***

Name of the enterprise	Severance / VR	Training	Renovation / Expansion	Write off	IT requirement	Court cases	Bank overdraft	Repayment of loans	Contingent liabilities	Operational deficit	Advertisement & Promotional	Sundry creditors	Guarantees	Other	Dues from Govt.	Working Capital Assistance	Business Development	Total
SIDICO	0.90	0.15	20.00	13.84	0.10	0	0	0.37	0	0	0.30	0	0	0	0.09	0	0	35.75
State Bank of Sikkim	5.60	0	0	25.24	0	0	0	0	2.14	0	0	0	4.37	0	0	0	0	37.35
Sikkim State Co-operative Bank	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sikkim Jewels	4.37	0.5	10.50	0	0.50	0	0	0	4.45	0	0	0.27	0	0.43	0.24	0	0	21.26
Sikkim Hatchery	0.15	0	3	0	0.50	0	0	0	0.45	0.1	0.1	0	0	0	0.50	0.40	0	5.20
Sikkim Poultry	0.06	0.15	1.50	0	0	0	0	0	0.1	0.1	0	0	0	0	0	0	0	1.91
Sikkim Precision Industries	2.1	0.20	1.39	0.11	0	0	0	0.10	0	0	0.1	0	0	0	0	0	0	4.00
SITCO	2.19	0.35	2.85	1.5	0.3	0	5.77	0.51	0	2.54	1.8	0.4	5	0	0	0	0	23.21
Tea Board of Sikkim	0	0	0.72	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0.72
Sikkim Milk Union	1.13	0	0.11	0	0.17	0	0	0.05	0.30	1.61	0	0	0	0	0	0	0	3.37
Govt. Fruit Preservation Factory	0.63	0	0.99	0	0	0	0	0	0	0	0.15	0	0	0	0	0	0	1.77
Sikkim Tourism	0.33	0.35	2.50	0	1.25	0	0	0	1.05	0.65	0.4	2.3	0	0	**0**	0	0	8.83
Sikkim Handloom and Handicrafts Development Corp. Ltd	0	0.5	0.07	0	0	0	0	0	0.01	0.05	0	0	0	0	**0**	0	0	0.63
Khadi and Village Board	0.65	0.1	0.23	0	0	0	0.34	0	0	0	0.02	0	0	0	0	0	0.25	1.59
State Trading Corp.	5.40	0.03	0	0	0.07	0	0	0	0	0	0.02	0	0	0	0	0	0	5.52
Sikkim Consumer Co-operative Society	0.81	0.02	0	0.03	0.12	0	0	0	0	0	0.05	0	0	0	0.59	0	0	1.62
SIMFED	0.50	0	8.0	1	0.50	0	0	0	0	0	0	0	0	0	0	10	9.65	29.65
Denjong	0.40	0	3	1	0	0	0	0	0	1	0	0	0	0	0	3	0	8.40
Sikkim Nationalised Transport Corp.	8.80	0.15	25.27	0	0.10	0.1	0	0	0.08	4	0.10	2	0	0	0	0	0	40.60
*State Energy and Department of Power	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sikkim Power Dev. Corp.	0.50	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0.50
SABCCO	0.50	0.15	1	1.50	0.10	0	0	0	0	0	0.25	0	0	1.2	0	0	0.4	5.10
Total	35.02	2.65	81.13	44.22	3.71	0.10	6.11	1.03	8.58	10.05	3.29	4.97	9.37	1.63	1.42	13.40	10.30	236.98

** The department has been excluded from the scope of this study*

Annexure 8.12 Savings from Privatisation / winding up of nine*SLPEs

	Particulars	2003-04
1	Total Investment	**78.19**
2	Opportunity Cost (@ 10 % on Total Investment)	**7.81**
3	Less Net Profit	**0.27**
4	Add Subsidies	**3.22**
5	**Total (2+3+4)**	**10.76**
6	**Less Dividends**	**0.11**
7	**Gross Direct Cost (5-6)**	**10.65**
8	Add Guarantees	**50.00**
9	**Total Cost (7+8)**	60.65
10	**Restructuring Cost**	24.96
11	Annual Saving (9-10)	35.69

(*Sikkim Jewels Ltd, Sikkim Hatchery Ltd, Sikkim Poultry Dev. Corp. Ltd,
Sikkim Precision Industries, Govt. Fruit Preservation Company,
Sikkim Time Corporation, Sikkim Trading Corp. , Sikkim Consumer Co-operative Society
and Sikkim Power Dev. Corp.)

Annexure 8.13 Enterprise Wise Restructuring Plan

8.15 .1

Name of the SLPE	**:**	**Sikkim Industrial Development and Investment Corp. Ltd (SIDICO)**
Date of incorporation	**:**	**March, 1977**
Classification	**:**	**Financial Sector**
Administrative Dep.	**:**	**Finance Revenue and Expenditure Department, GoS.**
No of Employees	**:**	**34**
Total Investment	**:**	**Rs 19.66 crore**
Accumulated Profit/ losses	**:**	**Rs -7.36 crore**
Dividends	**:**	**Nil**
Restructuring Path	**:**	**Disinvest**
Anticipated Benefits	**:**	**Additional resources to the GoS**
Valuation	**:**	**Nil**
Restructuring Cost	**:**	**Rs 35.75 crore**

Enterprise Profile

The authorized share capital of the company is Rs 20 crore of which the paid up capital is Rs 17.04 crore. GoS has contributing Rs 10.67 crore to share capital whereas the Industrial Development Bank of India contributed Rs 6.37 crore. The objectives are to: provide long term loans for setting up cottage, tiny, small and medium industries; provide financial support for expansion, diversification and modernisation; extends financial assistance for Hotel Industry, small Hospitals / Nursing homes; provide seed capital towards participation towards promoter's contribution under the scheme of IDBI/ SIDBI; participate in share capital for joint sector projects; disburse Central and State Government incentives; set up and develop industrial areas and industrial estates; and achieve rapid industrial and economic development of the State. The corporation has been appointed as a nodal agency for the preparation of the detailed project report for widening of national highway 31 A and setting up the software technology park at Tadong. The major concerns of the corporation include: lack of good and viable proposals for finance, high percentage of NPAs, high administrative cost, decline in equity support from Government, discontinuation of disbursement of central subsidies like central investment subsidies and central transport subsidies, and competition from other financial institutions like commercial banks, North Easter Developmental Financial Institution, SABCCO, etc.

Remarks

Various policy measures taken by the Central Government reforming financial sector and industrial sector have led to the total transformation of the finance industry in India. A healthy competition has stirlled the financial sector and the borrower has the choice to go in for a particular lender. There is a need to re-define the role of SIDICO especially in the context of competition being offered by the sister SLPEs such as SABCCO and regional developmental banks such as North Eastern Development Financial Institution. The corporation has high NPAs and also a number of court cases.

Restructuring Costs

Resources		Amt in crore
1.	Voluntary Retirement Scheme to downsize 25 % of manpower	0.90
2.	**Training for skill upgradation of staff and for meeting the** growing need of business	**0.09**
3.	Office modernisation, computerisation of financial loan accounting and MIS system	00.10
4.	Industrial Infrastructure and development of Industrial Development center	20.00
5.	Write off (provision made against bad / loss assets as per RBI guideline	12.06
6.	Write off (Provision made for diminution in value of investment as per RBI guidelines)	01.78

7. Promotional activities viz. Trade fair, publicity, advertisement, entrepreneur development programmes 00.30
8. Repayment of refinance loan borrowed at higher rate of Interest of 11 per cent 00.37
9. Dues from Govt. (2 per cent mortgage deed registration Stamp duty incurred by SIDICO as an incentive of entrepreneurs on behalf of State Govt.) 00.09
10. Fee for conducting a study on financial restructuring 00.06

Total fund requirement **35.75**

Suggested Restructuring

The developmental role of the SIDICO has to be balanced with commercial role. The SIDICO should strike a balance between the investment and lending function and their again between long term and short term investments, and long term and short term lending's. The corporation requires capital restructuring to access low cost funds in the market to capitalize on its strengths. **SIDICO has to strengthen its industry related systems for better credit appraisal. It is advised to convert a part of its equity, say a minimum of Rs 5 crore, into eight per cent long term loan as a first step in the reconstruction of the corporation. The board has to be professionalised in order to tap capital markets.** To start with, the GoS may disinvest up to 15 per cent / 20 per cent of its share capital to central financial institutions / mutual funds by fixing bid price through auctions.

Action Plan

- Preparation of a Corporate plan
- An MOU with Chief Executive to cover aspects such as future role of SIDICO (mix of its lending – investment in shares, term loans, future profits, projected dividends)
- Conversion of equity of Rs 5 crore into 8 per cent term loan
- VRS to 15 employees, renovations, write off
- Installation of computer network, hardware and software
- Advertising and publicity
- Strengthening industry-wise information databases
- Designing suitable entrepreneurship training programmes
- Subjecting all the employees to innovate training programmes in order to regularly update their skills and knowledge base

Time frame

The total restructuring should be completed within 3 years

8.15.2

Name of the SLPE	**:**	**State Bank of Sikkim**
Date of incorporation	**:**	**24th June 1968**
Classification	**:**	**Financial Sector**
Administrative Dep.	**:**	**Finance Revenue and Expenditure Department, GoS.**
No of Employees	**:**	**271**
Total Investment	**:**	**Rs 5.40 crore**
Accumulated Profit / losses	**:**	**Rs 36.42 crore**
Dividends	**:**	**-**
Restructuring Path	**:**	**Divest**
Anticipated Benefits	**:**	**Additional resource to Govt.**
Valuation	**:**	**Rs 216.12 crore**
Restructuring Cost	**:**	**Rs 37.35**

Enterprise Profile

State Bank of Sikkim was founded under the Proclamation of Chogyal. It is a statutory body. The field of operation of the bank is currently restricted to political boundaries of the State of Sikkim. The GoS is the largest client of the bank. The bank also doubles up as the treasury to the State. Among the borrowers, government, contractors, and employees constitute the largest group. There are individual borrowers with large amount of loans and advances. The authorized capital of the bank is Rs 1crore against the paid up capital of Rs 0.58 crore. The bank has 21 branches all over Sikkim. Although the bank is currently an operational profit making organization, it has accumulated losses of very high magnitude. The bank staff is not well versed in banking operations and is required to acquire relevant skills-set. The Non Performing Assets (NPAs) of the bank are Rs 40 crore. The bank is looking forward to have a strategic partner for its future growth. The major concerns of the bank are: threat posed by commercial banks, high administrative cost, poor customer services, poor recoveries and inadequate system of monitoring and evaluation.

Remarks

The financial sector reforms are in full swing impacting tremendously the commercial banks. The banks have to fall in line with the capital adequacy, income recognition, NPA reduction, employee professionalisation and technology up-gradation norms. Although the RBI does not regulate State Bank of Sikkim, there is an urgent need for the GoS to extend the linkage of the bank with the RBI regulation. To improve its competitiveness and outreach just as the J&K Bank Ltd belonging to the State of Jammu and Kashmir.

Valuation Details

(Rs. in crore **)**

Land & Building	Plant and Machinery	Stocks	Bank OD	Cash	Su. Debtors	Total
10.02	-	-	-	185.00	21.10	216.12

Restructuring Cost

(Rs. in crore)

VR	Writeoff	Rennovations	Contingent liability	Operational deficit	Gurantee	Write off	Total
5.6	25.24		2.4		4.37		37.35

Suggested Restructuring

Asset - liability mismatch has to be removed. Technological up-gradation leading to setting up of its own network and its interconnection with other networks has to be undertaken. Accumulated losses have to be written-off. Employee training has to be introduced with a great rigour. Court Cases have to be settled. Dependence on the GoS has to be considerably reduced for an organic growth of the bank. Loan evaluation procedures have to be tightened.

Action Plan

- Preparation of a corporate plan
- Application of Indian Banking Companies Act
- Grant of special fund by government to take care of the losses incurred on account of the loan waiver scheme.
- Settlement of court cases by especially designed institutional mechanism.
- Rigorous training and management development
- Introduction of loan evaluation procedures
- VR to excess staff and access to social safety net.

Time frame

The total restructuring should be completed within 3 years

8.15.3

Name of the SLPE	:	**Sikkim State Co-operative Bank Ltd (SISCO)**
Date of incorporation	:	**12th December, 1998**
Classification	:	**Financial Sector**
Administrative Dep.	:	**Department of Co-operation, GoS.**
No of Employees	:	**16**
Total Investment	:	**Rs 9.36 crore**
Accumulated Profit /Loss	:	**Rs 1.05 crore**
Dividends	:	**0.03**
Restructuring Path	:	**Continue in the state sector with increased accent on resource mobilization and profitability**
Anticipated Benefits	:	**Improved fulfillment of public purpose**
Valuation	:	**-**
Restructuring Cost	:	**-**

Enterprise Profile
SISCO became the Apex Co-operative Bank after obtaining licence from the Reserve Bank of India. It was registered under the Sikkim Co-operative Societies Act, 1978. The main objectives of SISCO are to: serve as a financing center for all co-operatives societies in the State, raise deposits and share capital for providing loans to member co-operative societies and other individual members against viable schemes, and to do all types of banking business as defined in Section 5 & 6(1) of the Banking Regulation Act, 1949. The authorized capital of the bank is Rs 15 crore. The bank is involved in deposits, and loans and advances operations. It has 3 branches located at Gangtok, Namchi and Gayzing. The bank has been continuously earning profits and also declaring dividends. The credit-deposit (C-D) ratio of the bank is 71 per cent as against the State average of 29 per cent for all the commercial banks. The bank is involved in developing a pilot project in association with the state government, NABARD and 10 co-operative credit societies.
Remarks
The financial sector reforms have added a number of new dimensions for the successful functioning of the banking industry. The co-operative banking sector has emerged as a weak link in the chain. Although, SISCO has been doing well, it has tremendous scope to improve its efficiency. The bank has to improve the volume of its operations and also its outreach. It may also add new businesses and strategise the growth of high value products.
Suggested Restructuring
It is required to concentrate on new productline such as micro finance. It should internalize the use of technology in its operations. It should set up more number of branches. The bank should promote management development and training. It may consider appointing a consultant to formulate a business growth plan.
Action Plan

- Preparation of a corporate plan
- Networking micro finance institutions
- Settingup more branches
- Technological Upgradation
- Intensive training and management development
- Intra-corporate planning with State Bank of Sikkim

Time frame
The total restructuring should be completed with in six months

8.15.4

Name of the SLPE	**:**	**Sikkim Jewels Ltd (SJL)**
Date of incorporation	**:**	**7th December, 1972**
Classification	**:**	**Manufacturing Sector**
Administrative Dep.	**:**	**Department of Commerce and Industries, GoS.**
No of Employees	**:**	**125**
Total Investment	**:**	**Rs 7.04 crore**
Accumulated Profit /Loss	**:**	**Rs 0.28 crore**
Dividends	**:**	**Nil**
Restructuring Path	**:**	**Closure or Liquidation or total divestiture**
Anticipated Benefits	**:**	**Saving of Govt. Resources**
Valuation	**:**	**Rs 2.67 crore**
Restructuring Cost	**:**	**Rs 21.26 crore**

Enterprise Profile
The company is engaged in manufacturing watches, industrial jewels, rotor magnets, and disposable syringes. It provides employment opportunities to unskilled people. The company declared dividends between 1978-79 and 1981-82. However, currently, it is incurring losses due to un-precedented recession in the horological industry. The company has made efforts to overcome the recession by making a dent in the export market. The company has some pending issues for settlement with the government such as the receiving the export incentives, lifting the moratorium on the payment of its deposits and reimbursement of the VRS expenses incurred. The company can take up the manufacturing of any type of micro precession instruments as its manpower trained to produce tiny jewels in micron tolerance.
Remarks
The company has done extremely well in the initial years. A continious decline of domestic demand and fresh investments in new projects without scientific application of project management and evaluation techniques has put company in a tight corner.

Valuation (Rs in crore)

Land & Building	Plan & Machinery	Stocks	Sundry Debtors	Others	Gross Estimated Receipt Total	Bank Overdraft	Sundry creditors	Total
0.27	0.5	1.52	0.65		2.94		0.27	2.67

Restructuring Cost: Since the enterprise is proposed to be privatised / wound up, the restructuring costs as worked out by us are as follows:
The enterprise revealed the following as the restructuring costs on the presumption that it will continue to be in the state portfolio after restructuring.
Modernisation :

1. SJL has a installed capacity of 36 lakhs meter jewels per year and is supplying to domestic markets. As the consumption of water is growing, many state governments are introducing water maters in house holds. This has increased the demand for quality water meters using jewels. SJL proposes to modernize its exiting jewels plants by inducting latest machines form Switzerland and wants to induct high productive diamond wheels. This needs and additional investment of 30 lakhs.
2. SJL is regularly supplying high quality jewels, used in watches, to Switzerland from since five years. Swiss customers are insisting of better quality management. To meet international quality standard, SJL needs modern testing equipments, like profile projectors and higher power microscopes. This needs and additional investment of Rs 40 lakhs.
3. To cut down the rejection and increase productivity of Watch Jewels, SJL wants additional Rs 30 lakhs for importing the latest jewels manufacturing machines from Switzerland.

Diversification

1. Disposable syringe and needle manufacturing unit : SJL has set up a pilot project to manufacturing Disposable syringes with a capacity of one millions syringes per year. Commercial production is expected to commence from 3rd week of April 2005. SJL plans to increase the capacity to 10 millions per year by inducting latest machines from Austria at a cost of Rs 250 lakhs.
2. Rotor magnets for quartz watches : SJL is manufacturing Rotor Magnets from rare earth material, Samarium Cobalt, and has supplied to watch manufacturers in India. To export this product abroad, as the clients wants complete stepper motor, SJL wants an additional investment of Rs 700 lakhs to induct latest technology ie., sintering machine from Singapore. Detail project report can be submitted.
3. Technical Training and Traveling: To be more competitive in international market SJL wants to improve the technical skills of manpower by training them in Europe. To develop new markets internationally, marketing persons have to travel frequently and freely. This needs additional fund of Rs 50 lakhs.
4. Computerisation and Research and Development : To be more efficient computerisation and interlinking of various departments to share information and data is must. Also to be more efficient Research and Development activity should be taken up seriously for technology upgradation to look for various options for diversification using similar technology. An additional fund of Rs 50 lakhs is needed for the same.
5. Voluntary Retirement Scheme : To cut down the cost of production and to be more scheme and a fund of Rs 49.32 lakhs was provided for the same.
6. Salary Revision : Salary of the employees was last revised in the year 1998 and needs revision now which will need and additional fund of Rs 20 lakhs
7. Sundry Payable: Rs 27.03 lakhs
8. Contingent liabilities: SJL has given guarantee for the loan taken by ancillary units ; 5 units finance by SIDICO – Rs 169 lakhs , 5 units financed by IDBI – Rs 276 lakhs

Suggested Restructuring
The organization is a clear case for privatisation. As an alternative, the organization could be merged in a holding company and made one of its division. The holding company, in due course, decide about the continuation of the division or its privatisation / closure.

Action Plan

- Valuation of assets and liabilities
- VR to excess employees
- Access to social safety net
- Training and management development on war footing in case of continuation of the company
- Merger related activities if the company has to be made a division of the proposed holding company

Time frame

The total restructuring should be completed in six months.

8.15.5

Name of the SLPE	**:**	**Sikkim Poultry Development Corp. Ltd**
Date of incorporation	**:**	**March 1991**
Category	**:**	**Manufacturing Sector**
Administrative Dep.	**:**	**Animal Husbandry LF&VS Department**
No of Employees	**:**	**6**
Total Investment	**:**	**Rs 0.79 crore**
Accumulated losses	**:**	**-**
Dividends	**:**	**Nil**
Restructuring Path	**:**	**Closure or Liquidation or total divestiture**
Anticipated Benefits	**:**	**Saving of Govt. Resources**
Valuation	**:**	**Rs 0.70 crore**
Restructuring Cost	**:**	**Rs 1.95 crore**

Enterprise Profile

The corporation was established to promote, administer, own and run, improve, develop, finance directly or indirectly, store and sale poultry and poultry products, poultry feed and equipment, and provide services for the growth of poultry industry. The activities of the corporation include financial promotion and welfare of the public and the poultry farmers, trading of the inputs, selling poultry and poultry products and operating poultry processing plant and egg power processing plant. The enterprises functions in competitive market. The finances of the enterprise are in a very unhealthy shape. Besides negative net profits, the same trend persists with regard to net worth and working capital. The corporation is seeking a turnaround based on a project report prepared by a consultant.

Remarks

The organization is defunct and is not adding any value to any stakeholder.

Valuation	**Amt Rs in crore**
Land and Building	0.70 crore
Plant and Machinery	Nil
Bank Overdraft	Nil
Patients	Nil
Su. Debtors	Nil
Others	Nil
Total	**0.70 crore**

Restructuring Cost	**Rs in crore**
VRS	Nil
Training	0.15
Renovation and Expansion	1.50
Writeoff	Nil
IT requirement	Nil
Court Cases	Nil
Bank OD	Nil
Repayment of Loans	Nil
Contingent liabilities	0.10
Operational Deficit	0.10
Advertisement and promotion	0.10
Su. Creditors	Nil
Guarantees	Nil
Others	Nil
Dues from Government	Nil
Total	**1.95**

Suggested Restructuring
The organization could be privatised through trade sale / employee and management buy out (EMBO)/ joint venture
Action Plan
- Valuation of assets and liabilities
- VR to excess employees
- Access to social safety net
- Training and management development on war footing in case of continuation of the company
- Merger related activities if the company has to be made a division of the proposed holding company

Time frame
The total restructuring should be completed in six months.

8.15.6

Name of the SLPE	**:**	**Sikkim Hatchery Ltd**
Date of incorporation	**:**	**August 1994**
Category	**:**	**Manufacturing Sector**
Administrative Dep.	**:**	**Animal Husbandry LF&VS Department**
No of Employees	**:**	**15**
Total Investment	**:**	**Rs 0.46 crore**
Accumulated Profit /Loss	**:**	**-**
Dividends	**:**	**Nil**
Restructuring Path	**:**	**Closure or Liquidation or total divestiture**
Anticipated Benefits	**:**	**Saving of Govt. Resources**
Valuation	**:**	**Rs 2.50 crore**
Restructuring Cost	**:**	**Rs 5.20 crore**

Enterprise Profile
Sikkim Hatchery Ltd was set up as a joint sector company by GoS and Sri Venkateswara Hatcheries Ltd - a private sector company. The organization was established to satisfy the demand for hatchery products within the Sikkim and Bhutan. The company maintains poultry breeder stock, produces commercial chicks, markets chicks to the poultry farmer, runs a feed mill and supplies brooding equipment to the poultry farms. The company produces day old broiler chicks. The company is in manufacturing sector and operates in competitive market. The company operates at 25 per cent of its capacity.
Remarks
The organization is defunct and is not adding any value to any stakeholder
Suggested Restructuring
The organization could be privatised through trade sale / employee and management buy out (EMBO) / joint venture
Action Plan
- Valuation of assets and liabilities
- VR to excess employees
- Access to social safety net
- Training and management development on war footing in case of continuation of the company
- Merger related activities if the company has to be made a division of the proposed holding company

Time frame
The total restructuring should be completed in six months.

8.15.7

Name of the SLPE	**:**	**Sikkim Precision Industries Ltd (SPIL)**
Date of incorporation	**:**	**15th February 1999**
Classification	**:**	**Manufacturing Sector**
Administrative Dep.	**:**	**Department of Commerce and Industries, GoS.**
No of Employees	**:**	**60**
Total Investment	**:**	**Rs 3.70 crore**
Accumulated Profit /Loss	**:**	**Rs -0.02 crore**
Dividends	**:**	**Nil**
Restructuring Path	**:**	**Closure or Liquidation or total divestiture**
Anticipated Benefits	**:**	**Saving of Govt. Resources**
Valuation	**:**	**Rs 7.62 crore**
Restructuring Cost	**:**	**Rs 4.00 crore**

Enterprise Profile
The company is involved in manufacturing operations and produces T0-92 and T0-220 semi conductors. For its order book, it is completely dependent on Bharat Electronics Ltd (BEL) which places job order on the company and supplies relevant inputs. The company provides employment to 50 persons with primary and secondary school education background. The company faces fierce competition from China which supplies the semi conductors at much lower prices. The company is looking for new markets. It is approaching Bharat Heavy Electrical's Ltd (BHEL) to supply capacitors, and replace some of its old machinery. The company is planning to acquire some new machinery to boost its production. It is operating at a capacity of 40 per cent.

Remarks
SPIL is a high end technology oriented company operating in a completely protective environment. The support from its mother organization – BEL, is not coming forward in as much as it is required. It is facing threat from China. It has excess manpower. Its capacity utilisation is very low.

Suggested Restructuring
As per the company executives, SPIL should restructure its product line, markets and technology. The excess manpower could be offered VR. The company may setup T0 – 92 assembly plant within the same premises. The company may also take steps to increase its capacity utilisaiton.
However, in our opinion, the organization could be privatised through trade sale / employee and management buy out (EMBO) / joint venture

Action Plan
- Valuation of assets and liabilities
- VR to excess employees
- Access to social safety net
- Training and management development on war footing in case of continuation of the company
- Merger related activities if the company has to be made a division of the proposed holding company

Time frame
The total restructuring should be completed in six months.

8.15.8

Name of the SLPE	**:**	**Sikkim Time Corporation Ltd (SITCO)**
Date of incorporation	**:**	**1976**
Classification	**:**	**Manufacturing Sector**
Administrative Dep.	**:**	**Department of Industries, GoS.**
No of Employees	**:**	**146**
Total Investment	**:**	**Rs 11.74 crore**
Accumulated Profit/ Loss	**:**	**Rs -2.92 crore**
Dividends	**:**	**Nil**
Restructuring Path	**:**	**Closure or Liquidation or total divestiture**
Anticipated Benefits	**:**	**Saving of Govt. Resources**
Valuation	**:**	**Rs 2.69 crore**
Restructuring Cost	**:**	**Rs 23.21 crore**

Enterprise Profile
The company is the only watch manufacturer unit in Sikkim. It is the first company in Sikkim to have a country-wide marketing network. The company started mechanical watch assembly unit in technical collaboration with HMT Ltd. It established a watch crown manufacturing unit in collaboration with HMT Ltd in 1984. In 1987, the company set up a semi – conductor unit in collaboration with Bharat Electronics Ltd.. In 1992, the company established a digital watch manufacturing unit in collaboration with HMT Ltd.. In 2001, the company established a TV speaker manufacturing unit in collaboration with BPL Ltd. . The collaborations have run into rough weather due to problems with the mother units. The company has provided employment to over 1000 people mostly school dropouts from poor and rural backgrounds. 90 per cent of the employees of the company are women folk. The company has contributed towards integration of Sikkim with the rest of the country by promoting business association, transfer of technology and collaborations with enterprises of repute such as the HMT Ltd, Bharat Electronics Ltd and BPL Ltd. . The company fosters industrial culture in the State. Presently, the undertaking operates at a capacity of 20-30 per cent

Remarks
The company is in a very bad shape as its order book is empty. It has a huge campus which is not being put to any proper use. The employees sit idle without work. There is no money with the company to buy raw materials and pay wages.

Valuation (Rs in crore)

Land & Building 1	Plant & Machinery 2	Stocks 3	Sundry Debtors 4	Others 5	Bank Overdraft 7	Sundry creditors 8	7+8	Valuation
0.71	14.29	4.57	2.59	0.07	5.77	0.4	6.17	23.15

Restructuring Cost	**Amt Rs in crore**
VRS	2.19
Training	0.35
Renovation and expansion	2.85
Writeoffs	1.50
IT requirement	0.30
Court cases	Nil
Bank overdrafts	5.78
Contingent liabilities	Nil
Operational Deficit	2.54
Advertisement and sales promotion	1.80
Su. Creditors	0.40
Repayment	0.51
Gurantees	5.00
Total	**23.21**

Suggested Restructuring
The organization could be privatised through trade sale / employee and management buy out (EMBO) / joint venture

Action Plan

- Valuation of assets and liabilities
- VR to excess employees
- Access to social safety net
- Training and management development on war footing in case of continuation of the company
- Merger related activities if the company has to be made a division of the proposed holding company

Time frame
The total restructuring should be completed in six months.

8.15.9

Name of the SLPE	:	**Tea Board of Sikkim**
Date of incorporation	:	**1st June 1974**
Classification	:	**Manufacturing Sector**
Administrative Dep.	:	**Department of Commerce and Industries, GoS**
No of Employees	:	**449**
Total Investment	:	**Rs 22.71 crore**
Accumulated Profit/loss:		**Rs 7.83 crore**
Dividends	:	**Nil**
Restructuring Path	:	**Continue in the state sector with increased accent on resource mobilisation and profitability**
Anticipated Benefits	:	**Improved fulfillment of public purpose**
Valuation	:	**Rs 4.35 crore**
Restructuring Cost	:	**Rs 0.72crore**

Enterprise Profile
It is a manufacturing enterprise presently being controlled by the Department of Industries and Commerce. Tea Board of Sikkim produces tea from the Temi Tea gardens spread over in an area of 350 acres. It is a profitable enterprise. However, due to global recession, its profits are declining. It provides employment to a large number of local people. It has been able to build a brand for itself. The plant and machinery of the corporation is becoming obsolete and outdated. Although, there is a board to manage the organisation, the commercial outlook does not find favour with the organization place because of excessive control of the

administrative department. In the recent years, the production and productivity of the board had been declining.

Remarks
Tea board continues to remain unprofessional. Its bushes are becoming old. It has not been able to increase area of tea plantation. Its tea leaf withering plant and tea leaf drier machines are growing obsolete. Although, it had a brand known as Temi Tea, it has not been able to popularize its tea on par with Darjiling Tea. The wage costs of the company are increasing due to a substantial revision in the minimum wages.

Valuation

(Rs in crore)

Land & Building	Plan & Machinery	Stocks	Sundry Debtors	Others	Cash Bank balance and investments	Total
4.35	-	-	-	-	-	4.35

Restructuring Cost (Rs in crore)

VR	Training	Renovation / Expansion	Writeoff	Total
-	-	0.70	-	0.70

Suggested Restructuring
The board should be converted into a co-operative society which may obtain the near by lands for the tea plantations. Old plants and machines should be replaced. The newly formed co-operative society may even examine the option of taking the near by plots on lease. The productivity growth is the need of the hour. Alternatively, the board could be merged in the newly proposed holding company for the manufacturing sector and run as one of its division.

Action Plan

- Preparation of a corporate plan
- Conversion into a co-operative society or inclusion as a division of the holding company for manufacturing sector.
- Valuation of assets and liabilities
- Professional marketing
- Replacement of old plant and machinery.
- OPTIMA
- Acquisition of nearby plots

Time frame
The total restructuring should be completed in six months.

8.15.10

Name of the SLPE	**:**	**Government Fruit Preservation Factory**
Date of incorporation	**:**	**1964-65**
Classification	**:**	**Manufacturing Sector**
Administrative Dep.	**:**	**Department of Industries and Commerce**
No of Employees	**:**	**63**
Total Investment	**:**	**Rs 1.07 crore**
Accumulated Profit/loss:		**Rs 0.60 crore**
Dividends	**:**	**Nil**
Restructuring Path	**:**	**Introduce financial adjustments and then go for disinvestment**
Anticipated Benefits	**:**	**Long term Investment in service to consumers**
Valuation	**:**	**Rs 3.12 crore**
Restructuring Cost	**:**	**Rs 1.78 crore**

Enterprise Profile

Government Fruit Preservation Factory under takes the processing of fruits to produce fruit juices, jams, jellies and sauces. Initially, the factory was producing only orange squash in season to encourage farmers to grow orange plantation. Later on manufacturing of Jam, Jelly of other fruits like Pineapple, Plum Mango, were also introduced, while establishing the factory. The Maharaja had an understanding with Government of India to supply produce of the factory to the establishments of the Defence Ministry, Government of India. The products were later supplied to Indian Airline, Air India, and British Airways, etc. These channels of marketing continued to remain in vogue after the merger of Sikkim into India. The company was marketing its products under the brand '*Sikkim Supreme'.* The firm was privatised and handed over to M/s Sikkim Food and General Industries (P) Ltd. in 1987 – a firm owned by a local businessman. The firm could not manage in the business world which adversely effected the goodwill of Sikkim Supreme Brand. The firm was black listed by the Defence Department and subsequently handed over to the state government. The factory remained closed for one year. 1995, the GoS handed over the factory to a Swiss firm M/s Red Orchid Food Processing Ltd to run the company as a joint venture. However, the Swiss firm deserted the company and consequently the GoS has to takeover the firm again. Now, GFPF is managed by the Department of Industries and Commerce. Although, the firm is earning profits it faces a tough competition from private sector. Its counter parts in Bhutan holds a major sway in the markets and is able to sell its goods under the 'Druk Brand'. Kissan, another Indian firm, is also a formidable competitor. Many small firms producing fruit juices , jelly's, and sauces in West Bengal have reduced the market share of the GFPF. The moderinisation proposal granted by the Ministry of Food Processing, GoI, has not received support from the GoS. The capacity utilized is very low and is in the range of 10- 20 per cent.

Remarks

The government is not sure about the future of the factory as it faces tremendous competition from private sector especially from Kissan and Bhutan's Druk. The Factory's brand image has lost sheen. The Factory's fortune has been fluctuating. This makes the company a very good case for total privatisation.

Valuation

(Rs in crore)

Land & Building	Plan & Machinery	Stocks	Sundry Debtors	Others	Total
1	1.5	0.5	0.12	-	3.12

Restructuring Cost

A. Machinery and Equipments :	**Rs in crore**
1. Automatic bottom machine 24-30 BPM EVATS	0.05
2. Pet blowing machine SSB05B (upto 2 Lts)	0.05
3. Water processing system 2000 LPM RO	0.05
4. SS Tank and Pipe lines	0.01
5. Packing set: Stripper, labeling machine (injection moulding)	0.08
6. Homogenous machine SS conveyer etc.	0.03
7. Bottle washing machine	0.01
8. M …. Crane of one ton	0.01
9. Shreading machine	0.005
10. Boiler 600 kg	0.05
11. Pouch packing machine	0.02
12 Electric lifting platform (4pes X 1.3 lakhs)	0.02
13 Retort (2 Nos.)	0.02
14. SS Kettle (4 pec X 1.00 each)	0.02
15 Smoke exhust system	0.02
16 Transport 709 model TATA truck	0.08
17 Office Vehicle	0.05
18 Food grade containers 1000 nos @ 300 pes	0.03
	0.69
Installation Cost 5%	0.03
	0.72
Transportation 5%	0.03
	0.75

B. Civil Construction Works :	**Amt in Lakhs**
1. Replacement of wooden trust by sheet tins inproduction hall	0.04

2. Flooring of production hall with Kota stone	
150 X 30 & 50 X 50 @ 80 Sqft	0.06
3. Tiles upto 7 sft height in production hall	0.03
4. Renovation drainage system	0.02
5. Painting of factory roof and wall approach road	0.01
6 Office building repairing	0.01
7. Constuction of RCC 2 tier platform for stocking pupl (Raw Material) in carboys	0.02
8. Renovation of electrification	0.03
9. Renovation of steam line	0.01
	0.24

C. Extension working – Marketing expenses 0.15
In metropolitans cities like Kolkata, New Delhi, Jaipur etc.

Restructuring Cost

VR	Plant & Machinery	Training	Renovation / Expansion	Advertisement & Promotional	Guarantees	Total
0.63	-	-	**0.99**	**0.15**	-	**1.78**

Suggested Restructuring
The company could be privatised through trade sale or as a minority joint venture.
Action Plan
- Valuation of assets and liabilities
- VR to excess employees
- Access to social safety net
- Appointment of merchant banker for privatisation

Time frame
The total restructuring should be completed in six months.

8.15.11

Name of the SLPE	:	**Sikkim Co-operative Milk Producers Union Ltd**
Date of incorporation	:	**July 1980**
Classification	:	**Manufacturing Sector**
Administrative Dep.	:	**Co-operation Department, GoS**
No of Employees	:	**83**
Total Investment	:	**Rs 0.14 crore**
Accumulated Profit/loss:		**Rs -2.54 crore**
Dividends	:	**Nil**
Restructuring Path	:	**Disinvest**
Anticipated Benefits	:	**Additional resource to Govt.**
Valuation	:	**Rs 0.98 crore**
Restructuring Cost	:	**Rs 3.37 crore**

Enterprise Profile
It is an Apex body of the primary milk producer's co-operative societies at the village level and is a replica of AMUL. It is a manufacturing enterprise hamstrung with the following problems: low productivity of cows due to poor genetic potential, inadequacy of support services, inadequacy of fund, high cost of milk procurement and marketing, lack of feeds and fodder resources, weak extension services, high cost of maintenance of old plant and machinery, high establishment cost due to excess manpower, and weak resources and infrastructure for quality control. The organization utilizes 70 per cent of its capacity. The organization has ambitious plans for restructuring of diverse types and also meeting the challenges emerging from competition. Currently, the enterprise is incurring losses and its net worth is receding.
Remarks
Sikkim Milk Union is engaged in the task of rural development through livestock growth and dairy sector promotion. It faces competition from Anand and also from organized dairies and unorganized milk

producers. The organisation may make more milk producer's societies as its members and pay-off partly the shareholdings of the GoS.

Valuation

(Rs in crore)

Land & Building	Plan & Machinery	Stocks	Sundry Debtors	Others	Total
0.05	0.8	0.13			0.98

Restructuring Cost (Rs in crore)

VR	Training	Renovation / Expansion	Writeoff	IT requirement	Court cases	Bank overdraft	Repayment of loans	Contingent labilities	Operation defic
1.13		0.11		0.17			0.05	0.30	1.6

Suggested Restructuring
Sikkim Milk Producers Union requires to undertake market restructuring, financial restructuring, manpower restructuring and technological restructuring. It also requires to initiate a cost restructuring drive. The market restructuring requires contracting out of milk distribution, setting up milk parlors in Gangtok, producing more value added items and better packaging. Manpower restructuring requires VR to excess work force, capacity building and appointment of qualified manpower. Technological restructuring requires installation of electric bulk milk coolers, automation of milk testing procedures, and computerisation Cost control requires the setting up of standards and their vigorous implementation.

Action Plan

- Preparation of a corporate plan
- Asset - liability valuation
- VR to excess employees
- Joint ventures for marketing the products
- Additions to product line
- Technological upgradation
- Outsourcing of milk distribution
- Reduction in milk collection costs
- Management development and training

Time frame
The total restructuring should be completed in six months.

8.15.12

Name of the SLPE	:	**Sikkim Tourism Development Corp. Ltd**
Date of incorporation	:	**21st September 1998**
Classification	:	**Promotional Sector**
Administrative Dep.	:	**Department of Tourism, GoS**
No of Employees	:	**89**
Total Investment	:	**Rs 6.06 crore**
Accumulated Profit/loss:		**Rs -2.59 crore**
Dividends	:	**Nil**
Restructuring Path	:	**Continue in the state sector with increased accent on resource mobilisation and profitability**
Anticipated Benefits	:	**Improved fulfillment of public purpose**
Valuation	:	**Rs 3.52 crore**
Restructuring Cost	:	**Rs 8.83 crore**

Enterprise Profile
The corporation deals with tourism services which includes tourist accommodation, tourist cafeteria, tourist transport (helicopter service) and marketing, and consultancy to tourism department. The corporation also

organizes Teesta Tea Tourism festival. The corporation handles package tours and also conducts management events. The corporation provides leadership to tourism industry in Sikkim in organising capacity building programme and initiating development of tourism to various places in Sikkim. The corporation operates at 50 per cent of the capacity in terms of occupancy rate of its hotels.

Remarks

Sikkim offers a great scope for tourism. The corporation has not been able to come up to the expectations. It can enhance its productivity in relation to providing quality tourist services. It needs to introduce an effective cost management. The mantra for the future growth of the corporation should be 'public-private-partnership' (PPP). The GoS should handover the Nortel Hotel to the corporation purely from the point of view of safeguarding its financial viability. The corporation should take steps to improve the occupancy of its hotel accommodation. It should undertake aggressive marketing of its services. It should professionalise its staff. The Department of Tourism, GoS should facilitate in the efficient functioning of the corporation.

Valuation

(Rs in crore)

Land &Building	Plant & Machinery	Stocks	Bank overdraft	Patents	Sundry Debtors	Others	Total
3.27	NA	NA	Nil	Nil	0.25	Nil	3.51

Restructuring Costs

(Rs in crore)

VR	Training	Renovation	Write off	IT requirement	Court cases	Bank OD	Repayment of loans	Contingent liability	Operational deficit	Advertisement	Su. Cr	Total
0.33	0.35	2.50	Nil	1.25	Nil	Nil	Nil	1.05	Nil	0.03	2.31	8.83

Suggested Restructuring

The corporation should concentrate on promotion of tourism in Sikkim and reduce its direct involvement in providing services which it could better lease out, divest through trade sale or franchise to private sector.

Action Plan

- Preparation of a corporate plan
- Valuation of assets and liabilities
- Installation of management and financial systems
- Taking over of Nortel hotel
- Concentrating on promotional role
- Leasing out, franchising or divesting directly productive activities
- Development of tourist cites on PPP basis
- Development of tourist cites on PPP basis
- Installation of website and ensuring its proper functioning
- Professionalisation of staff
- Management development and training for capacity building
- VR to excess employees
- Access to social safety net

Time frame

The total restructuring should be completed in six months.

8.15.13

Name of the SLPE	:	**Sikkim Handloom and Handicrafts Dev. Corp. Ltd**
Date of incorporation	:	**1st December 2003**
Classification	:	**Promotional Sector**
Administrative Dep.	:	**Department of Commerce and Industries, GoS**
No of Employees	:	**13**
Total Investment	:	**Rs 0.80 crore**
Accumulated Profit/Loss	:	**Rs 0.05 crore**
Dividends	:	**Nil**
Restructuring Path	:	**Continue in the state sector with increased accent on resource mobilisation and profitability**

Anticipated Benefits : Improved fulfillment of public purpose
Valuation : Rs 1.23 crore
Restructuring Cost : Rs 13.70 crore

Enterprise Profile
Sikkim Handloom and Handicrafts Dev. Corp. Ltd started operation effect from December 1, 2003. The corporation has a share capital of Rs 5 crore. It is involved in the promotion of handloom and handicrafts development activities. It organizes training programmes for artisans to upgrade their skills. It also provides marketing support to craft persons, craft societies, co-operatives and non government organisations. Apart from providing marketing outlets through the sales emporium at Gangtok and Delhi, the corporation also encourages the participation of the craft persons in various exhibitions and fares within the State, as well as, at the national level.

Remarks
The corporation is involved in the vital task of preserving and fostering the handicrafts wealth of Sikkim and enhancing the competencies of artisans. Its effort to promote handicrafts through a pilot project by setting up nine craft co-operatives at various places in the State is appreciable. The corporation's showroom at Gangtok is functioning well. The corporation needs to step up its pace of work, professionalise its management, come out of the shadow of the parent department, step up its effort in the realm of marketing and ensure a longer tenure for the chief executive. The corporation needs revamp its managerial set up. It should promote networking with the private sector institutions.

Valuation

(Rs in crore)

Land & Building	Plan & Machinery	Stocks	Sundry Debtors	Others	Cash Bank balance and investments	Total
0.93	0.22	0.08				1.23

Restructuring Cost

(Rs in crore)

VR	Training	Renovations	Contingent liability	Operational deficit	Advertisement	Total
Nil	0.50	7.00	1.2	5.00	Nil	13.70

Suggested Restructuring
The corporation needs to develop its brand image. The corporation needs to enhance its commercial viability and put premium on entrepreneurship. It should concentrate on developmental / promotional role. It should open showrooms on franchise basis. It may lease out its existing showroom at zero point at Gangtok. A lease agreement for a period of 3 to 5 years may be negotiated.

Action Plan
- Preparation of Corporate Plan
- Completion of the corporatisation process
- Professionalizing management through intensive training in the areas of functional management
- Promoting management systems and their strict adherence
- Enhancing the developmental role of the corporation and minimizing commercial role
- Brand building
- Extending the sales outlet networks through franchising
- Leasing out the facility at zero point to private sector
- Longer tenures to chief executives

Time frame
The total restructuring should be completed in six months.

8.15.14
Name of the SLPE : Khadi and Village Industries Board
Date of incorporation : 1975
Category : Promotional Sector
Administrative Dep. : Department of Commerce and Industries, GoS
No of Employees : 83
Total Investment : Rs 12.01 crore
Accumulated losses : -

Dividends	:	**-**
Restructuring Path	:	**Continue in the state sector with increased accent on resource mobilisation and profitability**
Anticipated Benefits	:	**Improved fulfillment of public purpose**
Valuation	:	**Rs 2.03 crore**
Restructuring Cost	:	**Rs 1.59 crore**

Enterprise Profile
Prior to the merger of Sikkim in the Indian Union, the activities of the board were being managed with the help of Bihar Khadi and Village Industries Board. Presently, the board is operating 13 production and service centers, seven sales centers and four departmental units in different districts of Sikkim. The board has been operating one rural engineering works and also a hand made paper industry unit. The board was set up to patronise Khadi and Village industries in the State. The board produces cotton and woolen khadi, and village industries Products. It is a promotional enterprise. It is incurring losses. The establishment costs of the board are very high. The finances of the board are not in a good shape. The productivity is very low and the market push for its products is non-existent.

Remarks
Khadi and Village Industries Board serves a high social purpose. However, its not being run professionally. Its dependence on the government is very high. Its innovative capability is very low. Its establishment costs are exorbitant. Its marketing capabilities are questionable. The functioning of the board has not much helped the spinners and weavers in ameliorating their poverty.

Valuation

(Rs in crore)

Land & Building	Plan & Machinery	Stocks	Sundry Debtors	Others	Total
-	-	-	0.58	1.45	2.03

Restructuring Cost		**Rs in crore**
Payment of retirement benefits on VRS scheme		0.65
Overdraft		0.34
Purchase of new Charkha and Kharga		0.07
Setting up of a woken milling plant		0.15
Repairs and renewals		0.03
Stipend		0.10
Business development `		0.25
	Total	**1.59**

Suggested Restructuring
There is a need to amend the Khadi and Village Industries Board Act de-linking the board from the government. The establishment costs have to be reduced drastically. The managerial capability of the personnel is required to be enhanced through management development and training. The surplus employees need to be covered by VRS. The repairs and renovations should be given top priority for a smooth functioning of the board. The board should aggressively work towards increasing its turnover.

Action Plan
- Preparation of a corporate plan
- VRS to surplus employees
- Access to safety net
- Management development and training on war footing
- Renovation and repairs of plant and machinery
- Installation of financial and management systems
- Sustain increase in turnover
- Focusing on development of village industries products

Time frame
The total restructuring should be completed in six months.

8.15.15

Name of the SLPE	**:**	**State Trading Corporation (STC)**
Date of incorporation	**:**	**30th March 1972**
Classification	**:**	**Trading and Service Enterprise**
Administrative Dep.	**:**	**Department of Commerce and Industries, GoS**
No of Employees	**:**	**108**
Total Investment	**:**	**Rs 1.11 crore**
Accumulated Profit /loss:		**-**
Dividends	**:**	**Rs** 0.11 crore
Restructuring Path	**:**	**Introduce financial adjustments and then go in for disinvestment**
Anticipated Benefits	**:**	**Long term Investment in service to consumers**
Valuation	**:**	**Rs 32.50 crore**
Restructuring Cost	**:**	**Rs 5.52 crore**

Enterprise Profile
The corporation is engaged in procurement and supply of all types of materials required by the GoS. In addition to attending the protocol duties of the GoS, the corporation also renders all types of assistance to the patients sent to Kolkata for medical treatment. The corporation has an equity capital of Rs 1.11 crore. It has no long term debt. It is a profit earning enterprise. The corporation proposes to close down the loss making branches at Kolkata and Siliguri. It runs on a margin of three per cent between the procurement price and the price at which goods are sold to the government departments. The wages and salaries constitute about seven per cent of the total cost incurred by the corporation. The corporation is saddled with excess manpower. It proposes to extend VRS to 25 employees. The corporation faces recovery problems from the government departments. The corporation is awaiting a face lift from the opening up of the Nathulla –Pass linking India to China. The corporation operates in a highly competitive market where private sector enterprises are emerging as more important entities. The government departments are not satisfied with the functioning of the corporation. The corporation, as an intermediate agency between the GoS and suppliers, only adds to the procurement costs and delays.

Remarks
The management and financial systems of the corporation are very weak. The manpower is not trained. The turnover is inadequate. Although, the corporation is a profit making organization, it has not nurtured the climate of innovation. It is facing tough competition from private sector. Its recoveries are not satisfactory. There is a need to privatise the corporation.

Suggested Restructuring
The GoS has to repeal the act which paved the way for the setting up of the corporation. The GoS may privatise the corporation through trade sale / lease / employee and management buyout.

Action Plan
- Updation of accounts
- Repeal of the act under which the enterprise was set up
- VRS to excess employees
- Action plan for recoveries
- Appointment of merchant bankers for privatisation
- Preparation and implementation of action plan for recoveries

Time frame
The total restructuring should be completed in six months.

8.15.16

Name of the SLPE	**:**	**The Denjong Agricultural Co-operative Society**
Date of incorporation	**:**	**8th February 1965**
Classification	**:**	**Trading and Service Enterprise**
Administrative Dep.	**:**	**Co-operation Department, GoS.**
No of Employees	**:**	**112**
Total Investment	**:**	**Rs 0.2 crore**
Accumulated Profit/loss:		**Rs -0.83 crore**
Dividends	**:**	**-**
Restructuring Path	**:**	**Increased accent on the resource mobilisation / partial disinvestment**
Anticipated Benefits	**:**	**Better Revenues or reduced budget support**

Valuation	**:**	**Rs 0.71 crore**
Restructuring Cost	**:**	**Rs 8.40 crore**

Enterprise Profile
This Apex co-operative society undertakes marketing of agricultural produce and supplies of consumables to army. It is a trading and service enterprise. The organization is planning for expansion and diversification of its activities. It proposes to initiate business development by setting up flour mill, cold storage, transport fleet, meat procession units, marketing chain outlets and departmental store projects. It is expecting financial support from National Co-operative Development Corporation (NCDC) and North East Council (NEC).
Remarks
The enterprise was set up to serve the interests of army in the region. It should diversify the business and reduce the dependence on army. It could set up wholesale and retail outlets throughout the State. It is duplicating some of the activities with Sikkim Consumer Co-operative Society, SIMFED, and STC.
Suggested Restructuring
The organisation should undertake marketing, financial, manpower and technological restructuring to curb infructuous expenses, rationalize manpower, develop infrastructural activities, and modernise its associated units. It should be a part of the proposed newly merged organisation integrating into itself SIMFED, STC and Sikkim Consumer Co-operative Society.
Action Plan

- Preparation of a corporate plan
- Valuation of assets
- Assessment of liabilities
- Legal, accounting and financial preparation for merger into the proposed composite entity
- Appointment of a consultant to effect merger

Time frame
The total restructuring should be completed in six months.

8.15.17

Name of the SLPE	**:**	**Sikkim Consumers Co-operative Society**
Date of incorporation	**:**	**23rd July, 1975**
Classification	**:**	**Trading and Service Enterprise**
Administrative Dep.	**:**	**Co-operation Department, GoS.**
No of Employees	**:**	**27**
Total Investment	**:**	**Rs 0.17 crore**
Accumulated Profit/loss:		**Rs 0.75 crore**
Dividends	**:**	**-**
Restructuring Path	**:**	**Introduce financial adjustments and then go in for disinvestment**
Anticipated Benefits	**:**	**Long term Investment in service to consumers**
Valuation	**:**	**Rs 2.32 crore**
Restructuring Cost	**:**	**Rs 1.62 crore**

Enterprise Profile
The organisation caters to the needs of the general public by providing services at right price and acting as a countervailing force to balance the prices offered by the private sector. It is a consumer co-operative society dealing with the supply of stationeries, crockeries and other sundry items to the departments of the GoS and the central government agencies. It has also some retail counters. Initially, the society was handling consumer goods including the public distribution services items and the distribution of controlled cloths. The society makes purchases of all the commodities directly through the manufacturer and the wholesale agencies. The society proposes to open up departmental stores, install paper cutting units and set up sub-divisional stores.
Remarks
The enterprise is operating in highly competitive market and is involved in non-core activities. Denjong, SIMFED and STC are duplicating its activities. Some other SLPEs are also planning to take up the same activities. Although, the enterprise is profit making, it does not have professional staff. Its accounts are in arrears. It faces an acute problem of working capital. It does not have its own office premises. It is trying to become a wholesale agent for several companies. Its turnover is inadequate. It does not have a strong middle management. Its financial and managemental systems are weak.
Valuation

(Rs in crore)

Land &Building	Plant & Machinery	Stocks	Patients	Su. Debts	Others	Total
0.90	0.20	0.40	-	0.82	-	2.32

Restructuring Cost

(Rs in crore)

VR	Training	Renovation	Writeoff	IT required	Advertisement	Dues from Govt	Total
0.81	0.02	-	0.03	0.12	0.05	0.59	1.62

Suggested Restructuring

The organization should be merged into a broader entity combining SIMFED and Denjong Agricultural Co-operative Society. It should clear the arrears of its accounts.

Action Plan

- The arrears of accounts should be completed as early as possible
- Preparation of a corporate plan
- The VRS could be offered to surplus employees
- The merger proceedings should be initiated
- The liabilities should be settled and receivables may be obtained
- Legal, accounting and financial preparation for merger into the proposed composite entity
- Appointment of a consultant to effect merger

Time frame

The total restructuring should be completed in 1 year.

8.15.18

Name of the SLPE	:	**Sikkim State Co-operative Supply and Marketing Federation Ltd (SIMFED)**
Date of incorporation	:	1983
Classification	:	**Trade and Service**
Administrative Dep.	:	Co-operation Department, GoS.
No of Employees	:	**40**
Total Investment	:	**Rs 1.02 crore**
Accumulated losses	:	**-**
Dividends	:	**-**
Restructuring Path	:	**Increased accent on the resource mobilisation / partial disinvestment.**
Anticipated Benefits	:	**Better Revenues or reduced budget support**
Restructuring Cost	:	**Rs 29.65 crore**

Enterprise Profile

The authorized capital of the Federation is Rs 3 crore. This organisation is involved in the marketing of agricultural produce viz. ginger, orange, cardamom. The organisation also undertakes the procurement of supplies for the departments of the GoS. The organisation has broken even. SIMFED procures items such as fertilizers, livestock feeds, seeds, pesticides, agricultural implements uniforms, cement, misc. items, consumer goods and agricultural surplus marketing.

Remarks

The organization lacks continuity of purpose and management. The organization is characterised by lack of managerial skills, infrastructure, working capital and adequate stock-in-trade. It has failed to act as a price leader in regard to product in which it trades. The Federation duplicates its activities with STC, Denjong, and Sikkim Consumer Co-operative Society.

Restructuring Cost

- Low working capital base: Working capital base of SIMFED is very meager in comparison to its proposed plans of business. Capital inducted by the government considering earlier shape of business is not sufficient to carry its overall business. SIMFED is doing other business in order to meet its operative expenses.
- Lack of infrastructure: it may be mentioned here that SIMFED does not possess any building of its own and it operates in rental premises in all part of the state. The rent paid for the premises is inflating the total expenditure of the federation. Many of the expansion and diversification of

activities of SIMFED is hindered for want of adequate and suitable premises and corresponding rent to be paid to the owner of house building. Recently, we are on the move to own a plot of land at Tadong for construction of office cum central godown.

- Upgradation of working standard : The activities of SIMFED are increasing day by day and the modern facilities to undertake such activities are needed for the federation. These include computerization of accounting system, purchases and sales system and other allied activities on par with other institution. Computerization minimizes time taken for processing different proposal and also for preparing the things in the systematic manner.
- Poor status of affiliated member societies: SIMFED is supposed to carry out its marketing activities with its affiliated member societies. They are the main link between SIMFED and farmers. Our link with farmers located throughout the State is only through them. But in reality, most of these societies are financially unsound and cash – trapped one. They are poor business planner for which we need to support them with all kinds of infrastructural facilities. To make grassroots level societies more effective, indirect financial packages has to be arranged which may also include technical support like field level training to the Multipurpose Co-operative Societies **(MPCS)** functionaries.
- Diversification of activities: Though established with main objectives to take active part in marketing of agricultural produce and other agro – processing activities and marketing of consumer foods thereby involvement in manufacturing of consumer house hold goods, so far, we could not initiate any positive effort in this line which may be due to so many associated factors such as location, topography, availability of raw material, home market base etc.
- Situation could temporarily evade with involvement I Departmental supply works with support of Government to sustain affairs of SIMFED. Now time has come to start thinking towards the real objectives for which SIMFED has been created. In this line the following tentative projects have been selected for necessary implementation. They are

- Establishment of collection cum marketing centers for surplus agricultural produces (SAP) marketing
- Established of three marketing outlet for wholesale consumer business
- Manufacturing unit of Exercise note books
- Marketing of cut flowers
- Obtaining carrying and forwarding agency or sole distributorship for the entire state for any of the product which could generate the profit for its own sustenance.

Particulars	Amt (Rs in crore)
Working Capital assistance to diversify the business sector as per its Bye laws and to enter into manufacturing activities	Rs10.00
Cost of construction of four nos. of collection centers cum godowns and its sales / showrooms in different places of the States	Rs 5.00
Infrastructure developments for marketing of cut flower viz collection center and refrigerated van	Rs 1.00
Civil cost of construction of SIMFED 's office cum central godown at 5th mile Tadong	Rs 1.00
Establishment cost of Ex-book manufacturing unit	Rs 1.00
Writing off of bad debts and sundry debtors	Rs 1.00
Support to ease burden of IT & TOT and other taxes	Rs. 0.50
Support for VRS scheme	Rs 0.50
Support to its affiliated member societies to give them indirect financial package and to impart training to manage the societies for at least first five years @Rs 1.00 lakh for 166 mpcs and 25 ccs = 191 socities	Rs 9.55
Security deposits and other formalities while obtaining dealership cum distributorship of various companies	Rs 0.10
Total	**29.65**

Suggested Restructuring

The corporation could be merged with STC. It could be allowed to renovate its plant and machinery. The financial support for required IT hardware and software could be considered for the corporation. The Federation could be merged into a broader entity combining SIMFED and Denjong Agricultural Co-operative Society.

Action Plan

- Valuation of Assets and Liabilities
- Diversification of activities proposed by setting up Ginger processing plant, cardimum processing plant, promoting corporative tourism, setting up of corporate manufacturing unit and obtaining C&F of big manufacturers for the state
- Conduct open auctions for cardimum
- Preparation of a corporate plan
- Complete merger activities into the proposed new entity combining Denjong and Sikkim Consumer Co-operative Society.
- Legal, accounting and financial preparation for merger into the proposed composite entity

Time frame

The total restructuring should be completed in 1 year .

8.15.19

Name of the SLPE	:	**Sikkim Power Development Corporation (SPDC)**
Date of incorporation	:	**15th December 1978**
Classification	:	**Utility**
Administrative Dep.	:	**Department of Energy and Power, GoS.**
No of Employees	:	**21**
Total Investment	:	**Rs 53.01 crore**
Accumulated losses	:	**-**
Dividends	:	**Nil**
Restructuring Path	:	**Closure or Liquidation or total divestiture**
Anticipated Benefits	:	**Saving of Govt. Resources**

Enterprise Profile

It is involved in the preparation of pre-feasibility report and detailed project reports of hydro-electric projects. It was also mandated to generate hydro energy. It has 21 employees on rolls of which 7 are managerial personnel. It has an equity investment of Rs 3.80 crore and long term debt of Rs 50.01 crore. The debt bears the gurantee of the GoS. The corporation has not taken up any hydro energy generation project. The corporation lacks clarity about its vision and mission. SPDC has been toying with the idea of taking up generation schemes of about 100 mw if the government provides it a share capital of Rs 150 crore over a period of 4-5 years.

Remarks

The corporation has not taken off in terms of its work activities and the government is also not keen on its continuation

Suggested Restructuring

The corporation should be privatised / wound up

Action Plan

- The assets and liabilities of the corporation should be valued and surrendered to the Energy and Power Department
- VR to the existing employees be offered and those who are on deputation could be re-patriated to their parent departments.
- A consultant may be appointed to suggest the modalities of privatisation / closure

Time frame To be wound up in three months.

8.15.20

Name of the SLPE	:	**Sikkim Nationalised Transport**
Date of incorporation	:	**1944**
Classification	:	**Utility sector**
Administrative Dep.	:	**Department of Transport, GoS.**
No of Employees	:	**824**
Total Investment	:	**Rs 34.39 crore**
Accumulated losses	:	**-**
Dividends	:	**Nil**
Restructuring Path	:	**Continue in the state sector with increased accent on resource mobilisation and profitability**

Anticipated Benefits : Improved fulfillment of public purpose
Valuation : Rs 1.19 crore
Restructuring Cost : Rs 40.60 crore

Enterprise Profile

There was no public transportation system in Sikkim till 1944 when a Truck Department was created which was subsequently renamed Sikkim Nationalised Transport (SNT) in 1955. As most of the routes within the State were nationalised prior to 1975, all passengers and goods were exclusively transported by SNT buses and trucks or under its supervision. However, the system has been diluted after the extension of the Central Motor Vehicle Act, 1988 to Sikkim. Nevertheless, the bulk of passengers and the goods traffic in the State are still being carried by SNT (See: Govt. of Sikkim, Report of the Comptroller and Auditor General of India, March 2003, p 24). SNT has 12 depots –cum-ticket booking officers for buses within the State one at Siliguri (West Bengal). In addition, there are four ticket booking agents at other places within the State and one at Kalimpong (West Bengal). SNT also operates three depots for trucks at Gangtok, Rangpo and Jorethang. It has one Central Workshop at Jalipool for major repairs and workshops at Gangtok, Rangpo, Jorethang and Rhenock for minor repairs. It has 100 buses, 54 trucks and 38 tankers. Its total fleet strength is 192.

Organisational Setup

The chart shows that the concept of line and staff is followed in the SNT. The concept has become outdated. The transport sector enterprises follow the SBU approach in organising their activities. The functions such as R&D, job evaluation, performance measurements, training and management development, resource raising and bench marking find no place in the organisaitonal chart. (See Annexure 8.8)

Financial Position and the working results

Table 39 shows the SNT has been a loss making organization. However, the operating deficit has been decline over the years in terms percentage to revenue earned. It is interesting to note that SNTs revenue from hire charges have been more as compared to revenue from its trucks and tankers.

Financial Position and the working results: SNT

Particulars	1998-99	1999-00	2001-02	2002-03	2003-04
Operating Revenue	**9.53**	**10.10**	**11.91**	**15.41**	**17.46**
Passenger traffic	1.36	1.66	2.39	2.18	1.68
Goods traffic	4.50	4.76	4.65	8.13	10.42
Sale of POL	3.56	3.61	4.56	4.78	5.12
Miscellaneous	0.11	0.07	0.31	0.32	0.24
Operating Expenses	**17.92**	**20.38**	**19.47**	**22.49**	**22.15**
Passenger traffic	12.03	12.73	12.63	16.32	16.38
Goods traffic					
Purchase of POL	5.43	6.99	6.24	5.40	5.07
Miscellaneous	0.46	0.66	0.60	0.77	0.70
Operating deficit	-8.39	-10.28	-7.56	-7.08	-4.69
Percentage of deficit to revenue	**88**	**102**	**63**	**46**	**27**

(Source: Information collected from SNT)

Fleet Strength

Table 40 gives the fleet strength of the SNT.

Fleet Strength: SNT

Year	Bus	Truck	Tanker	Total
2001-02	110	70	45	225
2002-03	106	63	43	212
2003-04	100	54	38	192

(Source: Information collected from SNT)

The fleet strength of the SNT is declining year after year. This is due to disposal of apart of the old fleet and restricted purchases as their replacement and new additions. The fleet position of the SNT is given in Table .

Acquisition of the Fleet

During the period 2001-02 to 2003-04, 64 vehicles were disposed off. Against these numbers of disposed vehicles only 22 new vehicles were inducted in the fleet for the entire 3 years period. The **ARSTU** norms state that atleast 60 per cent of the fleet strength should be comprised of vehicles not less than 4 years old. The present percentage of such vehicles of SNT is a mere 19.68 per cent which is way below the prescribed ARSTU norm. the vehicle to staff ratio of the Department is around 4, which is well above the national average of 2.51 per cent. The department has to have the fleet augmented in order to break even generate profits:

Trucks 20 X 8.00 lakhs	160.00
Tankers 5X 10.00 lakhs	50.00
Mini Buses 5X 5.00 lakhs	25.00
	235.00

Acquisition of Fleet: SNT

Financial Year	No. of vehicles disposed off	No. of vehicle inducted in the fleet	Shortfall
2001-02	Buses -9 Trucks – 13 Total 22	Buses -5 Trucks –6 Total 11	Buses -4 Trucks –7 Total 11
2002-03	Buses -8 Trucks – 12 Tankers -2 Total 22	Buses -4 Trucks – 5 Total 9	Buses -4 Trucks –7 Total 2
2003-04	Buses -6 Tankers - 5 Trucks –9 Total 20	Buses - Trucks – 2 Total 2	Buses -6 Tankers -5 Trucks –7 Total 18

(Source: Information collected from SNT)

Fleet Utilisation

Fleet Utilisation is the ratio of the vehicles on road to the average number of vehicles held. According to the recommendation of the Association of State Road Transport Undertakings (**ASRTU)**, 92 percent of the fleet should be road worthy of which 90 percent shall kept in operation and 2 per cent as reserve. In respect of buses, the fleet utilisation of SNT ranged between 75 to 85 per cent during 1998-99 to 2002-03, falling short of the norm by 7 to 17 per cent. The fleet utilisaiton of trucks ranged between 70 to 95 per cent during 1998-99 to 2002-03

Vehicle Productivity (VP)

The vehicle productivity indicates the average revenue earning kilometer covered by each vehicle per day, for which SNT had not fixed any norm. The VP of SNT buses for the period 1998-99 to 2000-01 compared with that of other hill State's Road Transport Corporation RTC are shown below:

Vehicle Productivity in Road Transport Corp in North East: SNT

State Road Transport Corp.	1998-99	1999-00	2001-01
SNT	85.64	81.90	80.72
Himachal RTC	215.10	224.80	223.40
Meghalaya RTC	186.10	121.10	136.90
Nagaland RTC	-	103.90	132.50
Mizoram RTC	118.40	119.60	118.80
All India Average	279.00	295.00	267.00

(Source: Govt. of Sikkim, Report of the Comptroller and Auditor General of India, March 03)

Operational Efficiency

According to the latest fare formula of SNT adopted with effect from Feb 2002, the expenditure per kilometer per bus worked out to Rs 20.02 and RS 18.74. Out of 9,638 bus trips operated out of Gangtok during 2002-03, in 2,923 and 6,715 long and short distance trips respectively the per kilometer earnings per bus was less than the cost. The loss on this account worked out to Rs 1.17 crore during 2002-03 for Gangtok depot alone.

It was also seen that SNT discontinued services, reasons for which were not record, from Gangtok, to Pelling and District Courts from August 2000 and September 2002 even though these services recorded high average earning of Rs 33.78 and Rs 27.99 per kilometer. The SNT resumed the Pelling service form October 2000 to November 2000 during which period the average earning came down to Rs 7.23 per kilometer. Thereafter this service was discontinued.

Fuel efficiency

- *SNT had fixed efficiency of buses at three kilometers per liter of HSD. However, the actual consumption was 1.82 kmpl, 2.19 kmpl, 1.88 kmpl, and 1.82 kmpl. The extra expenditure on HSD incurred by SNT due to the lower fuel efficiency being 27 to 37 per cent less than the norm and the consequent adverse impact on its profitability, SNT did not consider it necessary even once during the period under review to ascertain the resons or take remedial measures. Further, the fuel efficiency of SNT buses for the period 1998-02 was the lowest compared to the Road Transport Corp. of other states with topographies similar to Sikkim, as evident from the table below* :

Fuel Efficiency

State Road Transport Corp.	1998-99	1999-00	2001-02	2002-03
SNT	1.82	2.41	2.19	1.88
Meghalaya RTC	3.19	3.11	3.17	NA
Nagaland RTC	NA	3.5	3.5	3.5
Mizoram RTC	3.00	3.00	2.87	2.74
All India Average	3.68	3.67	3.53	4.59

(Source: Govt. of Sikkim, Report of the Comptroller and Auditor General of India, March 2003)

Strengths, Weaknesses, Opportunities and Threats (SWOT) Analysis

Strengths

The time proven strength of the department is that it has consistently achieved its revenue as well as social obligations. In the last Financial Year 2004-05 alone, against the Government target of Rs. 21.50 crore the department not only achieved the target but also exceeded it by almost 8 crore.

- The existing law of land gives SNT the absolute transport market on all the domestic routes as well as the NH 31 A as these are nationalized routes. In principle, what this means is that SNT is the only recognized public transporter for the State. Here it may be noted that even the private trucks carrying public commodities have to run under the supervision of SNT. It implies that legally SNT has 100% control over the Transport business in the State of Sikkim.
- SNT has a very efficient and experienced work force both in the Operation Section as well as the mechanical section, which are the backbone of any transport organization. The department has also very good infrastructural setup like depots, workshops, godowns etc. all over the state as well as in the state of West Bengal.
- The SNT has fully established its Brand name over the years. The number of accidents and fatalities is almost nil in the case of SNT. SNT is the sole official carrier of both the passengers and goods of important organizations and departments as such the Army, General Reserve Engineering Force (**GREF)**, all Oil Companies, FCI, all State government departments etc,

Weaknesses

- The main weakness of the department is that it has not been able to restructure its activities whereby the department has over the period of years lost the competitive edge to its competitors in private sector. Although, the freight business is almost 100% with the department, it has lost considerable grip over the passenger sector mainly because of its inability to modernise passenger carrier sector.
- Proper Manpower planning and optimum utilization of the workforce needs a serious review as the financial burden of maintaining the excess manpower can not be continued for long.
- The main weakness of the department is that it has not been able to hold an optimum number of fleet. The department is totally dependent on the Government for the funds required for its augmentation of fleet. Against the projected, optimum fleet of 400 - 500 vehicles the department has only 192 vehicles at its disposal.
- The present fleet of functional vehicles is over aged and consists of 66% of vehicles, which are over 10 to 14 years old. This factor adversely affects the important parameters such as vehicle productivity, load factor, etc.

Opportunity

- SNT has a grate scope to increase its market share. With the increase in the flow of tourists, its market share is expected to increase further. The setting up of hydro electric projects, helipads, airports and opening up of the Nathulla Pass is expected to brighten the scenario further.

Threats

- The shrinking fleet is the biggest threat. The over manning is also causing a great stress. Too tight a departmental control is obstructing innovativeness and depriving the SNT of a healthy corporate culture. The corporation has become the dumping ground of un-required personnel who lack professional knowledge. The department has no vision. It does not have a corporate plan.

The organisation caters to the transportation need of all government department, central agencies and general public. The organization has been entrusted by the responsibility of handling freight for army. The corporation provides bus services to every hamlets and towns of the state. The occupancy rate is very low, the buss staff ratio is very high, the buses are out modeled, the fuel consumption is very high, the corporation has been incurring losses year after year. The fleet strength is depleting, the age profile is highly un-favorable. The organization faces a stiff competition from private bus operators. The services provided need vast improvement. The investment from the government is not forthcoming. The departmental form of running the organisation robs it of autonomy and puts a heavy burden of accountability. The fuel efficiency of the SNT buses was lower compared to the Road Transport Corporations of other states with topographies similar to Sikkim. The vehicle productivity followed the same trend. The organization was characterized by access consumption of engine oil, wastage of burnt engine oil, loss due to sale of condemned vehicles with out tender process and shortage of stock material.

Remarks

There is a need to operate SNT in future too. The transport needs of the State would continue to grow. The private sector could co-exist. The social obligations in the transport sector could be fulfilled only by the SNT. However, SNT has to restructure its functioning.

Valuation

- LAND: The total valuation of land alone belonging to SNT is estimated at Rs. 69.42 Cores.
- BUILDINGS: SNT has well established office buildings, truck parking yards, guesthouses all over the state and at Siliguri, West Bengal. The net valuation of building alone is estimated at Rs, 15.36 crore.
- STOCKS: The net fast moving consumable, like fuel, oil, spare parts in possession of the department at any given time is estimated at Rs. 3 crore.
- VEHICLES: The present market valuation of the vehicles is estimated at Rs. 22 crore
- SUNDRY DEBTORS: The Sundry Debtors stand at Rs. 3.50 crore. This is the amount receivable from Army and Oil Companies.
- Miscellaneous: SNT has got substantial investment in plants and machinery in the various depots and workshops. The department also has major equipments or units such as Weighbridges (3 nos.), tyre rethreading plant, petrol pumps. The net valuation of these plants and machinery along with the total office equipments is estimated at Rs. 6.05 cores.

Valuation

(Rs in crore)

Name of enterprise	Land		Building	Stocks of Machinery, oil, fuel etc	Vehicles (Functioning and non-functioning	Sundry Debtors	Others	Total
SNT Transport Department	Jorethang	12.00	01.40					
	Siliguri	20.00	05.00				Plant and Machinery 03.00	
	Gangtok	27.00	06.00				Office Equp. 02.00	
	Tadong	03.40	00.05				Pump 00.60	
	Rangpo	02.00	00.50				W.Bridge 00.45	
	Namchi	00.13	00.02					
	Mangan	00.80	00.04					
	Gyalsing	00.60	00.20					
	Melli	00.90	00.05					
	Jalipool	03.00	02.00					
	Rhenoc	00.40	00.10					

	k							
Total		69.42	15.36	03.00	22.00	3.50	06.05	119.33

Restructuring Cost

- VRS: With the onset of the VRS introduced by the Government 88 numbers of staff of SNT had applied for VRS through the recommendation of the department. However, due to fund constraint only the case of 8 persons was considered. We still have old applications of 80 persons seeking VRS and in addition it is estimated that a minimum of 30 more applicants could likely submit applications for VR. The net fund requirement on VR @ 8 lakhs on average works out to Rs. 880/- Lakhs.
- RENOVATION & EXPANSION: Many depots including both the workshops and booking offices of SNT need to be renovated to improve working environment. The depot wise fund requirement for the renovation of booking offices, truck parking yards workshops, etc., is estimated at Rs. 60 lakhs.
- Upgradation of Plant and Machinery : With the advent of modern technology, the present day vehicles are much more sophisticated and therefore the cost of up gradation of the plant and machinery is estimated at Rs. 30 Lakhs
- IT requirements: In order to set up an efficient system of reimbursement of freight bills, the maintenance of stock inventory etc. It is necessary to introduce computers. The cost of IT requirement including both hardware and software is estimated to Rs 10 lakhs
- Court Cases : In variably, the nature of work is such that there will be court cases as result of accidents etc., the cost on accounts of this is estimate at Rs 10 lakhs.
- Contingency liability : In order to take care of the unforeseen rise in the cost of the operations, a contingency of 4 per cent on the total sundry creditors is estimated at Rs 8 lakhs
- Operational deficit : In spite of exceeding the revenue target, the department has a operational deficit of 400 lakhs This is maily attributed to the fact that SNT being a department, in the interest of the general public, is obliged to maintain the operations of bus services in almost 29 uneconomical routes. The department also gives concessions to the students, senior citizenship, Ex-servicemen etc. Primary reason for deficit is that the department is excessively overstaffed whereby the present expenditure on salaries and wages alone exceeds 10 crores per annum. Therefore, the cost of restructuring cost in order to compensate the operational deficit i5 estimated at Rs. 400 lakhs.
- ADVERTISEMENT & PROMOTION: The department needs to promote and advertise. Its businesses and activities so as to reach a larger section of the people. The restructuring cost on account of advertisement and promotion is estimated at Rs. 10 lakhs.
- SUNDRY CREDITORS: The restructuring cost on account of Sundry Creditors is estimated at Rs. 200 Lakhs.
- ACQUISITION OF FLEET: Perhaps, the most important action that the department has to take immediately is to augment its fleet. The restructuring cost for acquisition of 50 buses, 125 trucks and 25 nos. of tankers is estimated at Rs. 2237 lakhs.
- SPARE PARTS: The department needs to stock adequate quantities of spare parts. The restructuring cost for the requirement of spare parts is estimated at Rs. 2 crore.

Restructuring Costs

(Rs in crore)

VRS	Training	Renovation/ Expansion	IT Requirement	Contingent liability	Operational deficit	Advertisement	Sun. Creditors	Acquisition of fleet 200 nos. fleet	Forecast needs of spares for optimum fleet	Total
80 Old + 30 New X 8 lakhs = 8.80		**Jrt 0.65**						**Bus – 50 Rs @ 13.08 = 654.00 lakh Trucks**		
		Sng 0.40								

		Rpo 0.50						**125 Rs @ 10.52 = 1315.00 lakh Tanker 25 Rs @10.72 = 268.00 lakh**		
		Jpl 0.14								
		Gtk 0.20								
		Nam 0.10								
8.80	**0.15**	**0.90 (includes upgradations of Rs 0.30 crore)**	**0.10**	**0.08**	**4.00**	**0.10**	**2.00**	**22.37**	**2.00**	**40. 60**

Restructuring Process
Restructuring SNT involves marketing, human resource, finances, commercial, material, workshops, operations, schedules and overall organisational change management. The restructured organisation has to cope with the changing market needs, achieve the business goals and make the corporate vision a reality. Vision, mission and passion to excel must become the watchwords of a new work culture. A strategic approach is suggested under each of the important aspects of the restructuring plan.

Marketing Restructuring:

- Expand capacities to service all District Headquarters and neighboring State capital cities.
- Broaden service facilities by way of Ordinary, Fast Service, Express, Luxury, Hi-Tech buses with different fare/stage structures to suit various needs and sections of the population.
- Strive for customer/passenger satisfaction by improving safety, regularity and punctuality of services.
- Tie up with Tourism Corporation/other public undertakings and meet their transport needs.
- Introduce Booking Agencies at all important traffic points.

- Organise regular traffic/opinion surveys to identify profitable routes.
- Conduct regular opinion surveys to refine operations to secure better passenger satisfaction.
- Introduction of marriage, personal, excursion tours to fill idle time of spare vehicles.
- Introduction of "Transport Cards".

Financial Restructuring:

- Identify low cost fund sources.
- Reduce interest liabilities.
- Conversion of State/Central Government loans as equity.
- Conversion of interest due to State and Central Government as equity.
- Clearance of loans/interests of Finance Institutions/Banks by obtaining low cost funds.
- Rationalisation of MV tax system to improve operational viability.
- Waiver of MV taxes due to the State Government to set off the cost of services rendered by the Corporation by way of travel concession.
- Depreciation Fund provision of Rs.20.00 lakhs may be waived.
- Rationalisation of internal accounts and audit system
- Obtain grants and budgeted subsidies from State Government towards bus pass concessions.

Human Resource Restructuring:

- Lay down norms of staffing and reduce unproductive supporting staff.
- Improve the employee productivity by deploying required crew.

- Introduction of inter-functional transferability of supporting staff categories to Drivers/Conductors.
- Payment of employees' terminal benefits.
- Introduction of suitable VRS and offer to all willing supporting staff.
- Introduction of structured managerial and supervisory development training programmes for updating skills.
- Effective implementation of MOU system.
- Strengthening good employee-relation schemes.
- Introduction of suitable incentive schemes for all employees.

Commercial Restructuring:

- Leasing and renting of Corporation infrastructure.
- Introduction of advertisements on bus stations, buses, bus shelters, tickets, CTV ,advertisement, etc.
- Introduction of parcel and courier services through Corporation buses.
- Maximise luggage revenues i.e. accompanied as well as unaccompanied luggage.
- Maximise the revenue on postal services.
- Maximise the revenue on paper parcel service.

Material Management Restructuring:

- Introduction of integrated material management systems.
- Stocking of Depot spares inventory at 4 Zonal Headquarters.
- Standardizing stocking of spare parts with rationalized minimum and maximum limits as per the consumption pattern in order to reduce inventory carrying cost.
- Rationalisation of purchase policies to reduce inventory.
- Rationalisation of standardisation of disposal/auction activities of vehicles, scrap, tyres, batteries, etc.
- Tie up with oil companies to secure petrol, oil and lubricants (POL) at reasonable rates.

Operational Restructuring:

- Scheduling of buses with minimum inputs of bus and crew for given traffic demand and design cost-effective transport systems.
- Structuring of operations with optimum service mix to have better return.
- Rationalisation of ticket system as per the service mix.
- Standardizations of various types of services with different stage structures.
- Rationalisation of fare structure.
- Identification of threats from competitors on each route and formulate strategies for effective encounter.

- Identification of opportunities in terms of change of timings, permit variations, etc.
- Strengthening of bus station management.
- Strengthening of quality of services by improving safety, regularity and punctual operations. Creation of passenger relation cells.xi) Strengthening passenger information system.
- Introduction of privately hired buses to improve profitability.
- Augmentation of services on all high density routes.
- Rescheduling of low density and vehicle utilisation services.
- Introduction of services on all approved routes.
- Take advantage of route pattern as 71% routes have length of more than 100 km.
- Strengthening of all inter-state routes.
- Restructuring 20 approved routes which have overlaps ranging from 5 to 56 km.
- Introduction of Hi-Tech buses to all District Headquarters with modern facilities.

Organisational Restructuring:

- Smartsizing of Corporate Office with minimum staff. A lean Corporate Office is recommended.
- Closing of all Regional and Central Workshops to reduce cost of operation on
- Workshop repairs.
- Abolition of all Divisional and Sub-Depots to minimise the personnel cost on not very productive offices and staff.

- Creation of 4 self-contained near autonomous operational zones with appropriate delegation of powers.
- Establishing a strong one-tier system controlled by Zonal Office with supporting functions governed by federal administration from Corporate Office.
- Grouping of homogeneous functions to bring about economy.

Management Information Systems Restructuring:

- Introduction of effective management information systems.
- Regular monitoring of Critical Successful Factors (CSF) to improve overall performance.
- Regular and timely exchange of information on few vital areas to focus managers' attention and bring about competitive spirit.
- Introduction of performance appraisal and review system.
- Introduction of computers.

Vehicle Maintenance Restructuring:

- Introduction of preventive and breakdown maintenance systems.
- Enforcement of sound replacement policy.
- Strengthening of maintenance-operational systems and monitoring.
- Creation of Zonal Maintenance Engineers for this purpose.
- Introduction of technical, managerial and operational controls for fuel to improve use efficiency and performance.
- Introduction of technical controls in the area of tyres, lubes, batteries, springs, etc., to reduce the cost of operations.
- Scrapping of all vehicles over ten years age.
- Repairing of all vehicles which are less than ten years age.
- Auction of 6 Eicher vehicles.
- Rationalisation of fleet by making Bhopal, Indore as Leyland Comet bus and Jabalpur-Raipur as Tata bus zones.

Restructuring of Workshops

- Abolition of all Regional Workshops and Central Workshops to reduce Workshop repair costs.
- Establishment of Body Building Unit at Gwalior along with Printing Press and Training College.
- Establishment of four Zonal Workshops Co-terminus with Zonal operational Units along with Tyre Retreading Shop and Training Schools,.
- Control of Body Building Unit and Training College to be vested in Corporate Office.
- Modernisation of Zonal Workshop Body Building units with latest machinery.

Suggested Restructuring
There is a need to corporatise SNT on a top priority basis. The organisaiton should be restructured around the SBU concept. Excess manpower should be given VR. New rules of human resource development, financial management, marketing management should find place in the organisation. The operational restructuring should be undertaken on war footing basis.

Action Plan

- Preparation of a corporate plan
- Operational restructuring – renewal of fleet, re-organization of workshops, rethinking about the depots, acquisition of small sized buses to counter competition from private sector
- Human resources restructuring – rightsizing the corporation, abolition of practices of appointing handy boy, stopping the appointment of un-required personnel from government, management development and training, higher personnel productivity, induction of professionals.
- Financial restructuring – cost control and cost reduction, introduction of internal audit, low costs funding, fare revision and better cash flow management,
- Technological restructuring – computerisation and GIS,

Time frame
2-3 years for restructuring

8.15.21

Name of the SLPE	**:**	**Sikkim Energy and Department of Power**
Date of incorporation	**:**	**1967**

Classification	**:**	**Utility sector**
Administrative Dep.	**:**	**Department of Energy and Power, GoS**
No of Employees	**:**	**3443**
Total Investment	**:**	**Rs 514.79**
Accumulated losses	**:**	**-**
Dividends	**:**	**Nil**
Restructuring Path	**:**	**Continue in the state sector with increased accent on resource mobilisation and profitability**
Anticipated Benefits	**:**	**Improved fulfillment of public purpose**

Enterprise Profile
The Sikkim Energy and Department of Power is involved in generating, transmitting, distributing and regulating power in the State of Sikkim. The total generation of power in Sikkim during 2004-05 was 45.96 million units. The central and other utilities had the generating capacity of 51.00 million units. The total capacity was 97 million units. It is expected that the total capacity will go up to 469 million units during 2011-12. The financial position of the power sector is extremely unhealthy due to high losses incurred, very high T& D losses (of approximately 51 per cent), excessive manpower, and very high distribution costs. The number of employees with the department per million kwh sold varied from 8.01 to 12.16 compared to the all India average of 2.6 to 3.25. The number of employees per thousand consumers in the case of the Department varied from 21.11 to 23.36 against the all India average between 7.78 and 9.89. The excess staffing not only resulted in increasing the cost of power but also contributed to the operating losses incurred by the Department year after year. The lack of clarity with regard to the policy for power sector is also acted as a major deterrent to the growth of power sector. The State of Sikkim has to fall in line with the central policy of power sector reforms. It has to unbundle the activities of the Energy and Department of Power and constitute separate entities for generation, transmission, distribution and regulation.

Remarks
The development of energy and power sector is the top priority for the State of Sikkim which has tremendous hydel resources. However, the sector can grow on the basis of vigorous participation of private sector.
Suggested Restructuring
The sector needs to be corporatised and then subsequently privatise in line with the present policy of the Government of India. There is a need to unbundel the power sector into generation, transmission, distribution and regulatory entities. There is also a need to restructure the financial, commercial and human resources elements. This has been discussed in the study on Power Sector in Sikkim undertaken by the Administrative Staff College of India.
Action Plan
- Preparation of a corporate plan
- Unbundling the power sector into generation, transmission, distribution and regulatory entities.
- VR to excess employees
- Social Safety Net
- Financial, commercial and human resources related re-engineering
- Followup of 2003 Electricity Supply Act
- All other suggestions made in the ASCI Study as accepted by the GoS

Time frame
As suggested in ASCI Study and accepted by the GoS

8.15.22

Name of the SLPE	**:**	**Sikkim Scheduled Castes, Scheduled Tribes and Other Backward Classes Development Corporation (SABCCO)**
Date of incorporation	**:**	**27th February 1996**
Classification	**:**	
Administrative Dep.	**:**	**Welfare Department, GoS.**
No of Employees	**:**	**16**
Total Investment	**:**	**Rs 21.50 crore**
Accumulated losses	**:**	**Rs -1.69 crore**
Dividends	**:**	**Nil**
Restructuring Path	**:**	**Disinvet**

Anticipated Benefits	**:**	**Additional resource to Govt.**
Valuation	**:**	**Rs 1.43 crore**
Restructuring Cost	**:**	**Rs 6.00 crore**

Enterprise Profile

The organisation has an authorized share capital of Rs 10 crore. It is a State Chanalising Agency which awaits financial assistance by way of loan from Apex Corporation's at the national level viz., National Scheduled Tribes Finance Development Corporation and National Backward Classes Finance and Development Corporation for financing income generation schemes for the STs, SCs, OBCs and handicapped persons. The corporation was setup to : promote economic and development activities for the benefit of SC, ST, Other BC and handicapped persons; assist individuals or groups of individuals belonging to SC, ST, OBC and handicapped persons by way of loans and advances for income and employment generating activities; extend loans to SC, ST, OBC and handicapped persons for pursuing general / professional / technical education or training; help in furthering Government policies and programmes for the development of SC, ST, OBC and handicapped persons; enter into any agreement with Central Government / State Government or any State or Local authorities or otherwise for the purpose of carrying out objects of the Company; and obtain from any such Government, State authorities or persons any charters, subsidies, loans, grants, etc. The corporation provides term loan and micro credit to those involved in agriculture and allied operations, artisans, traditional occupation, technical trades, small business and hospitality industry.

Remarks

The enterprise is high on social purpose and resource mobilization. It incurs losses in the conduct of its business. It deals with the up-liftment of STs, SCs, OBCs and handicapped persons. The organisation faces the problems of recoveries, delayed release of share capital from the government, and age old loans. The lack of an effective MIS is also impeding the functioning of the enterprise. It has very poor net working with the all- India institutions dealing with STs, SCs, OBCs and handicapped persons. The managerial personnel are untrained. The non-managerial personnel are not well versed with the functioning of welfare enterprises. The middle management is conspicuous by its absence.

Restructuring Cost

Restructuring Cost	Amt (Rs in crore)
1. Grant in Aid for meeting administrative expenses	1.20
2. Training for officers and staff – capacity building	0.10
3. Computerisation – development loan software packages networking facilities to be provided, setup MIS cell	0.10
4. Settingup retail outlets in all four districts for displaying and selling items/products manufactured by SABCCO beneficiaries	0.15
5. Write up provisions for bad and doubtful debts	1.50
6. Provide funds for meeting the 1 per cent commission fee paid to state government for providing block government guarantee of Rs 25 core to Apex corporations National Schedule Caste Finance Development Corporation (NSFDC) , National Schedule Tribes Finance Development Corporation (NSTFDC), National Backward Class Finance Development Corporation (NBCFDC)	0.25
7. Funds for promotional activities such as organising EDPs, awareness camps, advertisement and publicity.	0.25
8. Provision for downsizing the manpower requirement	0.50
9. Cost of conducting an evaluation study for a financial restructuring	0.50
10. Cost of constructing and independent office building	1.00
Total funds required as grant in aid	6.00

Suggested Restructuring

The enterprise should introduce OPTIMA and get networked with the national apex organisation. The organisational, financial and manpower restructuring should be taken up in the case of the enterprise.

Action Plan

- Preparation of a corporate plan
- Preparation of a blue print for financial restructuring
- Designing and implementing VRS scheme

- Induction of qualified professional
- Conduct of surveys of beneficiaries
- Installation of an MIS system
- Install adequate software and hardware
- Develop relationships with the national organisations
- Concentrate on micro finance
- Networking with national organisations
- Promoting schemes relating to micro-finance

Time frame

Total restructuring should be completed with in six months

Annexure 9.1 **GROSS STATE DOMESTIC PRODUCT AT FACTOR COST BY INDUSTRY OF ORIGIN AT CURRENT PRICES**

(Rs. Lakhs)

Industry of Origin	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04*	2004-05**
Agriculture & Allied	11992	12520	14763	16040	17467	14543	16210	17631	18411	22996	25419	28334
Forestry & Logging	904	979	1062	1159	1264	1381	1511	1711	1883	2007	2173	2363
Fishing	30	32	50	52	55	61	63	67	70	78	80	82
Mining & Quarrying	93	93	97	98	97	97	105	117	127	145	156	169
TOTAL PRIMARY	13019	13624	15973	17349	18883	16081	17890	19527	20490	25225	27828	30948
Manufacturing(REG)	931	1000	1139	1206	1255	1327	1380	1427	1436	1477	1557	1648
Manufacturing(UN REG)	1274	1397	1606	1734	1778	1861	1890	1973	2031	2076	2205	2348
Construction	5052	5619	7460	9106	10597	11072	11628	13874	19401	24101	30650	36926
Electricity,Gas & WS	1015	1175	1402	1512	1636	2174	2928	6633	7617	5269	5720	6479
TOTAL SECONDARY	8272	9192	11607	13559	15266	16434	17826	23906	30484	32923	40132	47401
Transport & Communication	887	1144	1219	1556	1873	2277	2325	2626	3113	3945	4323	4721
Trade Hotels & Restaurants	2996	3092	3616	4267	4858	4268	4515	5160	5383	6186	6797	7499
Banking & Insurance	514	654	812	946	1167	1408	1840	2343	2849	3639	4121	4667
Real Estate ,O.D &B.S.	3460	3714	3931	4294	4792	5503	6889	7827	8668	9493	10177	10921
Public Administration	5646	6091	6885	7680	9718	15248	16215	16887	18031	20025	21045	22096
Other Services	4488	5289	6580	7360	8705	15255	15552	15733	16759	18438	20306	22380
TOTAL TERTIARY	17992	19982	23042	26103	31114	43959	47336	50575	54804	61725	66769	72284
Total State Domestic Product	39282	42798	50622	57011	65264	76474	83051	94009	105778	119873	134729	150633
Population (Number)	4.33	4.44	4.56	4.69	4.83	4.98	5.14	5.32	5.52	5.57	5.71	5.85
Per Capita Income(Rs.)	9072	9639	11101	12156	13512	15356	16158	17671	19163	21521	23595	25749

Annexure 9.2 **GROSS STATE DOMESTIC PRODUCT AT FACTOR COST BY INDUSTRY OF ORIGIN AT CONSTANT PRICES**

(Rs. Lakhs)

Industry of Origin	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04*	2004-05**
Agriculture & Allied	11992	11516	12517	12763	13035	9850	10378	10747	11030	13063	13977	15079
Forestry & Logging	904	939	977	1024	1073	1127	1186	1303	1381	1417	1476	1549
Fishing	30	30	43	43	43	43	43	43	43	46	46	46
Mining & Quarrying	93	82	92	98	94	78	83	85	90	93	99	104
TOTAL PRIMARY	13019	12567	13628	13927	14245	11098	11689	12178	12543	14620	15597	16777
Manufacturing(REG)	931	891	935	970	980	993	1005	1006	994	996	993	994
Manufacturing(UN REG)	1274	1244	1318	1394	1389	1392	1377	1391	1406	1400	1407	1417
Construction	5052	5159	6174	6737	6971	6613	6896	7533	10075	11978	14620	16479
Electricity,Gas & WS	1015	1041	1063	1180	1282	1497	1945	4347	4580	4310	4445	4572
TOTAL SECONDARY	8272	8336	9490	10281	10622	10495	11223	14277	17055	18685	21465	23462
Transport & Communication	887	1048	1056	1277	1451	1629	1710	1858	2085	2497	2658	2817
Trade Hotels & Restaurants	2996	2837	3079	3446	3713	3033	3040	3306	3350	3689	3917	4166
Banking & Insurance	514	569	630	769	1036	1108	1381	1582	1832	2279	2448	2630
Real Estate ,O.D &B.S.	3460	3556	3659	3755	3922	4056	4204	4371	4533	4696	4870	5053
Public Administration	5646	5586	5834	6135	7320	10604	10752	10790	11241	12016	12351	12639
Other Services	4488	4893	5663	6057	6778	10800	10557	10012	10315	10949	11725	12512
TOTAL TERTIARY	17992	18489	19921	21440	24220	31230	31644	31919	33357	36126	37968	39816
Total State Domestic Product	39282	39392	43039	45647	49087	52822	54556	58374	62955	69431	75031	80056
Population (Number)	4.33	4.44	4.56	4.69	4.83	4.98	5.14	5.32	5.52	5.57	5.71	5.85
Per Capita Income(Rs.)	9072	8872	9438	9733	10163	10607	10614	10973	11405	12465	13140	13685

Annexure 9.3 NET STATE DOMESTIC PRODUCT AT FACTOR COST BY INDUSTRY OF ORIGIN AT CURRENT PRICES

(Rs. Lakhs)

Industry of Origin	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04*	2004-05**
Agriculture & Allied	11900	12416	14639	15902	17315	14383	16046	17448	18192	22745	25142	28025
Forestry & Logging	783	783	808	853	921	1007	1112	1295	1400	1494	1628	1785
Fishing	24	24	41	42	44	49	50	53	56	63	64	65
Mining & Quarrying	61	61	64	65	63	63	70	82	91	109	119	132
TOTAL PRIMARY	13284	13284	15553	16862	18343	15501	17279	18879	19738	24410	26953	30006
Manufacturing(REG)	880	880	1004	1054	1100	1163	1209	1251	1259	1294	1365	1444
Manufacturing(UN REG)	1349	1349	1543	1662	1698	1770	1795	1869	1919	1953	2075	2209
Construction	5389	5389	7172	8806	10191	10592	11113	13149	18446	22896	29130	35095
Electricity,Gas & WS	115	115	175	96	66	427	1027	4593	5384	2887	3134	3550
TOTAL SECONDARY	7854	7854	10029	11771	13210	14116	15315	21037	27184	29213	35895	42501
Transport & Communication	576	576	625	789	966	1205	1223	1338	1582	1927	2098	2280
Trade Hotels & Restaurants	2793	2793	3252	3865	4432	3792	4009	4603	4774	5551	6099	6730
Banking & Insurance	622	622	777	908	1126	1351	1765	2262	2757	3508	3973	4499
Real Estate ,O.D &B.S.	3291	3291	3411	3720	4164	4805	6114	6969	7685	8432	9040	9700
Public Administration	5156	5156	5800	6487	8405	13812	14134	14732	15868	17640	18539	19464
Other Services	4738	4738	5949	6642	7920	14393	14617	14763	15467	16935	18650	20556
TOTAL TERTIARY	17175	17175	19813	22411	27014	39358	41863	44667	48135	53992	58399	63229
Total State Domestic Product	38312	38312	45394	51044	58567	68974	74456	84583	95057	107615	121247	135736
Population (Number)	4.44	4.44	4.56	4.69	4.83	4.98	5.14	5.32	5.52	5.57	5.71	5.85
Per Capita Income(Rs.)	8629	8629	9955	10884	12126	13850	14486	15899	17220	19321	21234	23203

Annexure 9.4 NET STATE DOMESTIC PRODUCT AT FACTOR COST BY INDUSTRY OF ORIGIN AT CONSTANT PRICES

(Rs. Lakhs)

Industry of Origin	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04*	2004-05**
Agriculture & Allied	11900	11422	12416	12661	12930	9745	10272	10634	10902	12920	13824	14914
Forestry & Logging	752	763	776	808	853	907	965	1075	1127	1156	1204	1264
Fishing	23	23	35	35	35	35	35	35	35	37	37	37
Mining & Quarrying	61	52	63	68	64	53	57	58	61	63	67	71
TOTAL PRIMARY	12736	12260	13289	13571	13882	10740	11328	11802	12125	14177	15132	16285
Manufacturing(REG)	831	773	812	843	853	864	875	876	865	867	865	865
Manufacturing(UN REG)	1235	1199	1265	1337	1327	1326	1310	1321	1335	1324	1331	1340
Construction	4842	4944	5921	6484	6636	6225	6486	6986	9384	11130	13585	15312
Electricity, Gas & WS	94	74	44	106	155	305	690	3036	3217	2894	2985	3070
TOTAL SECONDARY	7102	7109	8165	8897	9098	8849	9491	12349	14930	16345	18893	20717
Transport & Communication	448	530	554	671	789	919	1005	1053	1166	1322	1398	1476
Trade Hotels & Restaurants	2746	2557	2764	3113	3364	2658	2648	2896	2921	3247	3448	3667
Banking & Insurance	485	539	599	737	1003	1066	1324	1501	1767	2189	2351	2526
Real Estate ,O.D & B.S.	3078	3163	3252	3333	3480	3586	3700	3827	3947	4074	4225	4384
Public Administration	4842	4737	4951	5253	6418	9682	9552	9460	9911	10686	10984	11240
Other Services	4019	4384	5135	5493	6183	10183	9903	9359	9484	9955	10661	11376
TOTAL TERTIARY	15619	15910	17255	18600	21236	28094	28132	28096	29197	31472	33067	34668
Total State Domestic Product	35456	35279	38710	41068	44217	47683	48951	52247	56251	61995	67092	71669
Population (Number)	4.33	4.44	4.56	4.69	4.83	4.98	5.14	5.32	5.52	5.57	5.71	5.85
Per Capita Income(Rs.)	8188	7946	8489	8756	9155	9575	9524	9821	10190	11130	11750	12251

Annexure 9.5

MANUAL FOR ETIMASTION OF CAPITAL FORMATION For SIKKIM

Background

The RAC in its final report (1976) submitted to the Government of India, besides suggesting a set of accounts also elaborated the concepts, scope and coverage of Gross Fixed Capital Formation (GFCF) for estimation at state level. The RAC having recognized that the state level estimates of change in inventories are not conceptually viable or feasible because of the open boundaries of the states recommended only the compilation of GFCF. CSO, later, constituted a Sub Groups on State Gross Domestic Product and Expenditure Account in 1982. The report of the Sub-Group containing, inter-alia, methodological notes on "Fixed Capital Formation at State level: Scope, Coverage and Method of Estimation" as approved by the advisory Committee on National Accounts was forwarded to the State DESs in July 1986 for implementation. The National Accounts Division (NAD), CSO has been pursuing the States to prepare annually the estimates of fixed capital formation. The NAD organized Workshops in August 1977, July 1981, November 1990 and regional Workshop in March 1997 in this regard for the benefit of officers of the Directorate of Economics and Statistics. As a result of these efforts DES of some of the states are compiling annual estimates of State Gross Fixed Capital Formation by type of institution and by industry of use. A few DES, however, compile these estimates only for the public sector.

In view of the above it is proposed that estimation of only fixed capital formation, as recommended by the NAD and also in line with similar estimates being prepared by other states, may be taken up by the SIU of DESM&E, Government of Sikkim on an annual basis as per the concepts and definitions and the methodology given in subsequent paras.

Concepts & Definitions

Gross capital formation (GCF) refers to the aggregate of gross additions to fixed assets i.e., Gross fixed capital formation (GFCF) and increase in stocks of inventories, hereinafter referred to as change, in stocks during a period of account. Fixed assets comprise construction and machinery and equipment (including transport equipment and breeding stock, draught animals, dairy cattle and the like). Construction for military purposes (other than construction or alteration of family dwellings for military personnel), defence equipment, durable goods in the hands of the households and increase in the stocks of defence materials are excluded from the scope of capital formation. However, capital outlays of defence enterprises on ordnance and clothing factories are included.

GFCF is measured by the total value of a producer's acquisition, less disposal, of fixed assets during the accounting period plus certain additions to the value of non-produced assets realized by the productive activity of institutional units. Fixed assets are tangible or intangible assets produced as outputs from processes of production that are themselves used repeatedly or continuously in other processes of production for more than one year.

Net fixed capital formation (NFCF) is distinguished from gross fixed capital formation in that it is measured after allowances are made for consumption of fixed capital (CFC) that includes foreseen obsolescence and accidental damage to the extent provided for by the enterprise.

Types of Gross Fixed Capital Formation

There is substantial diversity in the different types of gross fixed capital formation (GFCF) that may take place. The following main types may be distinguished:

(a) Acquisitions, less disposals, of new or existing tangible fixed assets, subdivided by types of asset into:

(i). Dwellings
(ii). Other buildings and structures
(iii). Machinery and equipment
(iv) Cultivated assets – trees and livestock – that are used repeatedly or continuously to produce products such as fruit, rubber, milk etc.

(b) Acquisition, less disposals, of new and existing intangible fixed assets, subdivided by type of assets into:

(i). Mineral exploration
(ii). Computer software
(iii). Entertainment, literary or artistic originals, other intangible fixed assets

(c) Major improvements to tangible non-produced assets, including land.

(d) Costs associated with transfers of ownership of non- produced assets.

The various components of acquisitions and disposals of fixed assets, as referred to in categories (a) and (b) above, are listed below:

(a) Value of fixed assets purchased
(b) Value of fixed assets acquired through barter
(c) Value of fixed assets received as capital transfers in kind
(d) Value of fixed assets retained by their producers for their own use, including the value of any fixed assets being produced on own account that are not yet completed or fully mature.
less
(e) Value of existing fixed assets sold
(f) Value of existing fixed assets surrendered in barter
(g) Value of existing fixed assets surrendered as capital transfers in kind.

Scope and Coverage

Acquisitions of new assets cover not only complete assets but also any renovations, reconstruction or enlargements that significantly increase the productive capacity of extend the service life of an existing asset. In recognition of the newly increased capacity or newly extended service life, these improvements as part of acquisitions of new assets even through physically they function as part of existing assets. Items (e), (f) and g) above include disposals of assets that may cease to be used as fixed assets by the new owners: for example, vehicles sold by business to households for their personal use or assets that are scrapped or demolished by their new owners. Capital work in progress, in whichever industry it takes place, forms part of inventory and not fixed capital formation.

Thus GFCF consists of the outlay of industries and the producers of government services and of private non-profit services to households on addition to their fixed assets, reduced by their net sales (sales *minus* purchases) of similar second hand and scrapped goods. The commodities in question may be purchased or produced on own account. They include:

(i) durable goods – the lifetime of which is one year or more-acquired by producers
(ii) improvements and alteration of the durable goods which significantly extend and expected life-time or productivity of assets,
(iii) new construction and major improvements which extend its life period,
(iv) reclamation and improvement of land and the development and extension of timber tracts, mineral exploration, orchards, plantations and similar other agricultural holdings and
(v) breeding stocks, drought animals, dairy cattle and the like.

Dealers margins, service charges, taxes and other transfer costs in regard to transaction of such assets form part of capital formation. Destructive weapons such as missile, rockets, bombs etc. are excluded. However, military structures also used for civilian purpose are included. Outlays on newly constructed dwellings (either by households or industries) and expenditure on major improvement and alterations of residential building form part of fixed capital formation, while the purchase of durable goods by households for its own consumption are not treated as capital formation. Research and development expenditure should be considered as normal revenue expenditure and thus should not be capitalized.

Gross fixed capital formation, as mentioned above, includes expenditure on land clearance, irrigation works, plantation and cultivation of new timber tracts, new fruits and sap bearing trees, vines etc. which yield products after a number of years. After such plantations and cultivation become productive, further outlays in respect of cultivation should be classified as intermediate consumption. Soil conservation, clearance and aforestation of timber tracts and forests is classified under land improvement activity and included in gross fixed capital formation

The items of fixed capital formation should in principle be valued at purchaser's prices. However, in the case of fixed assets produced on own-account (particularly construction) it may be necessary to value such own-account production at cost including any imputation which may be necessary in respect of own-account labour employed for the purpose. Purchaser's values should cover all costs directly connected with the acquisition and installation of the items of assets. However, indirect outlays for the purpose of acquisition of such assets in the form of advertising etc. are excluded. The purchaser's value would thus include the cost of purchase of fixed assets in the market (or cost of production in the case of own-account construction and own-account production of machinery and equipment), customs duties (if relevant), purchase and indirect taxes and fees paid for the purpose, transport, delivery and installation charges, direct preliminary expenditure on site clearance, fees of architects, designers, engineers, etc. and other similar costs.

Expenditure on current repairs and maintenance incurred for keeping the fixed assets in proper working order is not classified as capital expenditure. Capital repairs consists of significant alterations and additions to, or replacements of the parts of fixed assets which have an expected lifetime or use of one year or more and involve substantial outlays and also extend the life of fixed assets or increase their productivity. Such expenditure on capital repairs is to be included in GFCF.

Identification of fixed capital formation in the case of industries located within the state boundaries does not create problems of measurement. However, in the case of organized enterprises both in the public and private sectors which have activities spread over a number of states there will be problems of identification and measurement in the context of state domestic fixed capital formation. State-wise figures of fixed capital formation of these enterprises will be the responsibility of the NAD of CSO, Ministry of Statistics and Programme Implementation, Government of India.

The transportable fixed capital assets operate in more than one state. In case Sikkim these are mainly vehicles used for road transport. To the extent the transportable fixed assets are owned by state enterprises these should form part of the capital formation of the state.

Methodology and Source Material for Fixed Capital Formation

At the state level and particularly for Sikkim the discussion will be focused only on the estimation of fixed capital formation since the state level estimates of change in inventories are not conceptually viable or feasible because of the open boundaries of the states.

At the national level the estimates of total gross/net fixed capital formation are prepared by Commodity Flow Approach by Type of Assets and by Expenditure Approach for the public and private corporate sector. The estimates of households including the non-profit institutions serving households are derived as a residual by subtracting the estimates of public and private corporate sectors from the commodity flow approach. The estimates fixed capital formation separately for construction and machinery are also prepared by industry of use following the expenditure approach.

The Commodity Flow Approach adopted at the national level is not viable or feasible for Sikkim because of the open boundaries of the state. For the measurement of GFCF for Sikkim only the expenditure approach can be adopted. The estimates GFCF can be prepared by type of institution i.e. public sector, private corporate sector and households including the non-profit institutions serving households. For each of the institution the estimates may be prepared for each type of asset by industry of use along the same lines as for estimates of SDP.

For each of the institution i.e. .public sector, private corporate sector and house-holds including the non-profit institutions serving households the source material and the method of estimation of fixed capital expenditure are described in the subsequent paras.

Public Sector

The estimates of fixed capital formation separately for construction and machinery for the public sector by industry of use i.e. agriculture, forestry, fishing, mining, manufacturing, trade, transport, etc. for the state government and departmental and non-departmental commercial undertakings (DCUs and NDCUs) can be prepared by expenditure approach on the basis of analysis of budget documents and annual reports of enterprises. The budget documents consisting of financial statement and demands for grants of all the ministries/ departments of the central, state governments as well as local authorities form the major source of data. The SIU is already engaged in the analysis of budget documents of state governments and the fixed capital expenditure of administrative departments and DCUs by industry of use is available in the worksheets of the SIU and can be compiled by industry of use.

For the state NDCUs the SIU has now taken up the analysis of their reports. The estimates of fixed capital expenditure by industry of use and by type of assets separately for construction and machinery will be available annually.

For the central government administration, departmental and non-departmental commercial undertakings (DCUs and NDCUs) of the central government operating within Sikkim the estimated fixed capital formation by allocation of national figures is being supplied by the NAD to the SIU of DESM&E, Government of Sikkim.

State-wise data on expenditure on construction for the NDCU of the central government are not available as their operations are spread over many states. The Bureau of Public Enterprises, central government collects annual data on gross block of assets from these enterprises at state level. Total expenditure on fixed assets at national level of these enterprises is allocated to the states by NAD using these data. Earlier the national level expenditure on construction was allocated in proportion to the state-wise gross block of assets. This procedure has lately been changed and the allocation is done in proportion to the increase/decrease of gross block of assets during the year. Using the latest procedure the allocated figures for Sikkim made available by NAD are erratic, negative and abnormally high and are not usable as such.

Private Sector

Private Corporate Sector including Cooperatives

At the national level the estimates of the private corporate sector by industry of use are prepared on the basis of RBI sample studies of large, medium and small companies. No state-wise figures are available from these studies. Like the supra-regional sectors the allocation of fixed capital formation to each of the state has to be provided by the NAD for incorporation in state fixed capital formation. Alternately the DESM&E will have to collect data on fixed capital expenditure from the units of the corporate companies operating within Sikkim by industry of use.

In case of cooperatives state-wise data on fixed capital expenditure for each type of cooperative i.e. agriculture, forestry, fishing, mining, , manufacturing, trade, transport banking, etc. operating within Sikkim were expected to be available from the Cooperative Department of the State Government as well as in NABARD's publication 'Statistical Statements relating to Cooperative Movement in India'. Unfortunately consolidated data on income and expenditure as well as additions to fixed assets during the year are not available from the Cooperative Department of the Govt. of Sikkim. NABARD's publication 'Statistical Statements relating to Cooperative Movement in India' as such does not contain any data on cooperatives operating in Sikkim. Data on income and expenditure and on additions to fixed assets during the year for individual cooperatives are available. Till such time consolidated data from the Cooperative Department become available data on income and expenditure and on additions to fixed assets during the year for individual cooperatives need to be collected and analysed annually on a sample basis to estimate the fixed capital formation during the year.

Supra-Regional Sectors

As in the case of SDP the estimates of GFCF by type of assets in respect of the supra regional sectors of Banking and Insurance, Air transport, communication and public administration of central government are prepared by the NAD and supplied to the state DESs for incorporating the same in their estimates. The Estimates of Supra-Regional Sectors are prepared by allocation of all-India estimates to the states using appropriate indicators based on the available state-wise data collected from the respective organizations. For example the main source of data for public administration of central govt. is the demands for grants of various ministries contained in the annual central govt. budgets. Each item of capital expenditure is first identified and then classified by type of assets and finally put under the state/U.T. where this expenditure has been incurred. By such a detailed analysis bulk of the expenditure at state level is captured and the rest is allocated on a prorata basis.

Supra-Regional Enterprises

In the case of organized enterprises both in the public and private sectors which have activities spread over a number of states there will be problems of identification and measurement in the context of state domestic fixed capital formation. For the public sector enterprises of the central government i.e. DCUs and NDCUs state-wise figures of fixed capital formation are being worked out by the NAD of CSO, Ministry of Statistics and Programme Implementation, Government of India. For similar enterprises in the private sector suitable procedure to derive state-wise figures of fixed capital formation will have to be devised the NAD.

Households

The main source of information for the households is All India Debt & Investment Surveys (AIDIS). Results of the AIDIS, 991-92 are presently available form the NSSO Report No.437 on 'Household Capital Expenditure during 1-7-91 to 30-6-92 and the results of the latest AIDIS, 2002-03 are likely to be available soon. The survey provides necessary data on GFCF for each state separately for rural and urban household. The item-wise details are further available in respect of

(i) residential plots, houses or buildings,
(ii) farm business broken into various items of capital expenditure of construction and machinery & equipment and
(iii) non-farm business broken into various items of capital expenditure of construction and machinery & equipment. Industry-wise details are not available

Agriculture including livestock

Making use of AIDIS estimates in respect of farm business estimates for the benchmark year may be compiled. AIDIS, 1991-92 gives estimated fixed capital expenditure for per household and number of households for rural households of Sikkim in respect of

(a) Orchards & Plantations
(b) Agricultural Machinery and Equipment and
(c) Others including Office Equipment

For urban households nil figures are reported.

Estimates for other years may be obtained by carrying forward & backward the benchmark estimates with the help of suitable quantum and price indicators. Expenditure on (c) above i.e. others including office equipment is negligible and can be clubbed with (b) above. The physical indicators, which can be used, are listed below:

Item	Quantum	Price Indicator
(a) Orchards & Plantation	Additional area under agriculture	CPI of agriculture –All-India
.(b) Agricultural machinery & transport equipment and (c) others including office equipment	Addition to the number of agricultural implements and machinery	Wholesale price index of Machinery & Transport Equipment

The livestock component is treated separately. In connection with the compilation of SDP the estimates of increase in breeding stock, draught animals, diary cattle and other animals raised for wool clipping are prepared as output of livestock at current and constant prices. This output forms part of fixed capital formation and may be added to fixed capital formation in agriculture based on AIDIS.

The estimates of GFCF of the public sector for agricultural activities such as improvement of land and irrigation works, flood control projects, laying of new orchards & plantations, purchase of agricultural machinery & implements can be culled out from the budget documents and annual accounts of non-departmental enterprises located in the state. The estimates at constant prices may be prepared separately for construction and machinery by deflating the corresponding estimates at current prices by indices of wages of rural skilled workers and wholesale prices of machinery and equipment respectively.

Ownership of Dwellings

For the household sector the point estimates for 1991-92 both for rural and urban residential building as obtained from AIDIS, 1991-92 may be carried forward and backward with he help of the indices of annual additions in the number of residential buildings in rural and urban areas to derive the estimates at constant prices. To arrive at the current price estimates the combined index of cost of housing based on price of construction materials and wages of construction materials and wages of construction labour may be super-imposed separately for rural and urban areas.

Fixed capital expenditure per household for Sikkim for 1991-92 4 is Rs. 66 in urban areas and Rs. 1229 for rural areas. The estimates of urban areas are grossly under reported due to inadequate small sample size, and cannot be used. At the All-India level fixed expenditure per household on dwellings in urban areas is two times that of the corresponding expenditure in rural areas. Fixed capital expenditure for urban areas in 1991-92 is assumed to be Rs. 1229*2=2458.

Non-Farm Business

The AIDIS, 1991-92 and 2002-03 provide direct information on fixed capital formation for rural and urban areas in farm and non farm business as also for residential houses. For non-farm business separate details by industry of use are not available. Fixed capital formation for Sikkim in non-farm business in rural and urban areas for 1991-92 has been reported as Rs.13 lakhs and Rs. 8 lakhs respectively only for machinery and equipment. These figures are negligible; a larger sample size is needed to bring out reliably the contribution from non-farm sector.

Forestry and mining industries are mainly in the public sector and the household fixed capital formation may be considered to be negligible. For **fisheries** also the fixed capital formation can be assumed to be negligible for Sikkim. Data to estimate the household fixed capital formation for these industries for Sikkim are not available.

Besides the AIDIS, follow – up surveys of the economic censuses conducted periodically by the CSO and NSSO are expected to provide benchmark estimates of fixed capital formation for the **unorganized part of manufacturing, trade, transport, hotel & restaurants, storage & warehousing and other services**. The data are supposed to be available in the form of either fixed asset per enterprise/establishment or closing or opening fixed assets or net addition to fixed assets by type of assets.

The enterprise surveys conducted in the recent past are as under:-

1. Unorganized Services, 2001-02
2. Unorganized Manufacturing, 2000-01
3. Informal Sector,1999-2000
4. Unorganized enterprises, 1998-99
5. Own account Trading and non-directory Trade establishments, 1996-97
6. Unorganized Manufacturing, 1994-95
7. Unorganized Trade 1990-91.
8. Hotels and Restaurants 1993-94
9. Unorganized Transport 1988-89
10. Storage 1992-93
11. Other Service 1991-92

Unfortunately the estimates of fixed capital formation for Sikkim from the published reports of enterprise surveys of CSO or NSSO for non-farm business except unorganized manufacturing, 1994-95 are not available. As and when the fixed capital expenditure for Sikkim, from the NSSO surveys for other industries become available, the same can be used.

Transport is a growing sector in Sikkim and the transport operated by the households for commercial purposes is likely to form a major part of non-farm business. Additions to the number of commercial vehicles registered with Transport Authority in the private sector are available. These can be evaluated at average prices to estimate the fixed expenditure on vehicles during the year.

Non-Profit Institutions Serving Households

The AIDIS does not take into consideration the capital formation of the non profit institutions serving households. Data on these institutions except educational institutions are also not available at state or national levels from any other source. For educational and medical institutions data on fixed capital expenditure may be available from the Education and Medical Departments. These data may be collected and used. For religious institution such as monasteries, temples, churches, etc data may be collected from their management. The DESME is currently collecting data on the private schools in respect of income and expenditure. etc. Majority of these may be non-profit institutions, but data on fixed capital expenditure is not being collected. Attempts need to be made to collect information in respect of non-profit institutions engaged in various activities.

Appendices

Appendix 1.1: List of Meetings

T. T. Dorji
Principal Secretary, Finance, Revenue and Expenditure Department
P. Wangdi
Controller of Accounts, Finance, Revenue and Expenditure Department
Nalini G. Pradhan
Special Secretary, Finance, Revenue and Expenditure Department
S. D. Pradhan
Joint Director, Finance, Revenue and Expenditure Department
Binod Silal
Deputy. Director, Budget, Finance, Revenue and Expenditure Department
G. K. Subba
Addl Chief Secy. Cum Development Commissioner, Planning Department
N. Yethenpa
Special Secretary, Planning Department
Jyotsna Subba
Deputy Director, Planning Department
M. Dakshinamoorthy
Accountant General, Sikkim
Jayashree Pradhan
Principal Secretary, Urban Development and Housing department
S. D. Tshering
Director, Directorate of Economics and Statistics, Monitoring and Evaluation
Mr. N.S. Alley
Deputy Director, Sample Survey, Directorate of Economics and Statistics, Monitoring and Evaluation
D.K. Chettri
Deputy Director, Directorate of Economics and Statistics, Monitoring and Evaluation
T R Dohal
Asstt Director, Directorate of Economics and Statistics, Monitoring and Evaluation
Mr. Nima Tainang
Asstt. Director , Directorate of Economics and Statistics, Monitoring and Evaluation
Mrs. S.K. Pradhan
Asstt. Director , Directorate of Economics and Statistics, Monitoring and Evaluation
Mr. Rikzing G. Lepeha
Stat. Inspector-in-Charge of Computer, DESME
Mr. R.R. Gupta, Dy. Director
District Statistical Officer, Namchi
C. L. Sharma
Additional Secretary, Department of Personnel
S. D. Basi
Secretary, Excise Department
M. Sharma
Commissioner, Excise department
M. K. Pradhan
Special Commissioner, Excise Department
I.K. Gautam
Deputy Commissioner, Excise Department
Dr. T. R. Gyatso
Secretary, Health Care, Human Services and Family Welfare Department
Dr. D. K. Subba
Principal Director, Health Care, Human Services and family welfare
C. L. Denzongpa
CCSE, Human Resource Development Department

Tshewang Gyachho
DDO, East District, Rural Management and Development Department
T. N. Dhakal
Additional Secretary, Land Revenue and Disaster Management Department
K. N. Bhutia
Special Secretary, Income and Sales Tax Department
D. Lepcha
Additional Secretary, Income and Sales Tax Department
U Gurung
Joint Secretary, Income and Sales Tax Department
S. T. Gyatso
Joint Secretary, Income and Sales Tax Department
Sarala Rai
Joint Commissioner, Income and Sales Tax Department
S.K.Sharma
Director (FC & PA), Finance, Revenue and Expenditure Department
M.G.Kiran
Managing Director, State Bank of Sikkim
Mr. P.Wangchen
MD, Sikkim Power Development Corp. Ltd.
Mr. P.B.Subba
GM, Sikkim Power Dev. Corp. Ltd
Mr. S.Topden
MD, SIDCO and SABBCO
Dr. Jai Ram Prasad
MD, Sikkim Poultry Development Corp. Ltd
Mr. B.P.Alley
MD, Sikkim Jewels Ltd
Mr. Y. Chakravarthy
Dy. Manager, Sikkim Jewels Ltd
Linus Rai
Sr. A.O, SKVIB
Mr. S.G.Bhutia
Village Industries
Mr. P.K.Dong
ED , Sikkim Tourism Dev. Corp.
Mr. Gyurme Yousal
GM, SITCO
Mr. Pwan Awasthy
GM, SITCO, representing MD , SPIL
Mr. Daden Bhutia
ED, SCCS
Mr. A.K.Adhikary
GM, SIMFED
Mr. L.P.Panday
MD, SIMFED
Mr. M.V.Vasu
MD, Sikkim State Co-op. Bank Ltd
Mr. T.Pradhan
MD, Denzong Agri. Corp. Society Ltd
Mr. Tempo Bhutia
MD, STCS
Mr. K.B. Gurung
MD, GFPF
Mr. D.Dadul
Pr. Secretary Transport

Pema Wangchen.
Chief Engineer, Energy and Power Department
M.V.Vasu
Managing Director, Sikkim State Co-operative Bank Ltd
C.T.Wangdi
Additional Secretary, Transport Department
Tseten Dorjee
Sr. AO, Commerce and Industries Department
H.K.Chettri
Under Secretary, Commerce and Industries Department
R. Ongma
Commissioner cum Secretary., Food and Civil Supplies
Mr. R P Chingappa,
Special Secretary, Food and Civil Supplies
Mr. Satyajit Paul
Deputy Director, N.S.S.O., F.O.D.
Mr. Banerjee
Census of India, Registrar General's Office
Mr. P.N. Tainang, Project Director
S.R.D.A., Min. of Rural Development
Mrs. R. Ongmu,
Commissioner-cum-Secretary, Min. of Food & Supplies (F&S)
Mr. R.P. Chingapa
Special Secretary (F&S)

Appendix 3.1 Training Programme on Value Added Tax - 1: Schedule of Lectures

	Day 1	Day 2	Day 3
9:30 to 11:00	Inaugural session	Design of VAT: An assessment	Issues in Administration of VAT - II
11:00 to 11:30	**Tea/Coffee**		
11:30 to 13:00	Critical Review of the Existing sales tax system	VAT Act: Issues Specific to Sikkim	Transitional issues
13:00 to 13:45	**Lunch**		
13:45 to 15:15	Introduction to VAT	Treatment of Inter-state Transactions: Issues and Options	Computerisation for VAT
15:15 to 15:45	**Tea/Coffee**		
15:45 to 15:15	Computing VAT and its implications	Issues in Administration of VAT - I	Valedictory Session

Appendix 3.2 Training Programme on Value Added Tax - 2: Schedule of Lectures

	11 May 05	1 2 May 05	13 May 05
9:30 to 11:00	Inaugural session	Role and Function of MIS in VAT - I	Checkposts and Information Flow
11:00 to 11:30	**Tea/Coffee**		
11:30 to 13:00	Assessment in a VAT Regime	Role and Function of MIS in VAT - II	Principles of Audit - II
13:00 to 13:45	**Lunch**		
13:45 to 15:15	Account Keeping in VAT - I	Risk Assessment for Audit selection	Audit – Case Studies
15:15 to 15:45	**Tea/Coffee**		
15:45 to 15:15	Account Keeping in VAT - II	Principles of Audit - I	Valedictory Session