Report

The Review of Compliance to Sikkim FRBM Act for the year 2013-14

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1. Introduction

The Sikkim Fiscal Responsibility and Budget Management Act (FRBM), 2010 under Section 7(7) prescribes that "the Government may assign to an independent external agency the task of carrying out the periodical review for the compliance of the provisions of this Act in the manner as may be prescribed". This is among the measures prescribed to enforce compliance to the Act. The Act also provide that the Minister-in-charge of the Department of Finance, after reviewing the quarterly trends in receipts and expenditure and measures to be taken to achieve the budget targets place a half yearly review report before the Legislative Assembly. The review report should contain a statement explaining any deviation in fiscal targets specified under this Act and remedial measures to be taken. The spending proposals that have the potential to increase the deficit should be accompanied with compensating revenue-raising proposals. The impact of unforeseen events on Government finances should be specified. The supplementary estimates should be accompanied with statement indicating the corresponding curtailment of expenditure and/or augmentation of revenue to offset the fiscal impact of the supplementary estimates.

An independent review has remained as an important element of public financial management requirements for effective fiscal responsibility legislation. The FRBM Act, through the provision of independent review and monitoring, provides an institutional process to assess the fiscal management of the State Government keeping in view the fiscal targets and fiscal management principles. This desirable feature of the Act improves the credibility and transparency of the fiscal management of the Government. It helps in providing an unbiased assessment of Government's compliance with the provisions of the fiscal rules and reasons for any deviations.

The specific objective of the review is to examine the concurrence of the State Government to the FRBM Act fiscal targets in terms of deficit and debt stock relative to the State GSDP. These are the benchmarks for a rule based fiscal management system to attain fiscal stability and sustainability. It needs to be noted that the Act is in line with the fiscal adjustment path recommended by the Thirteenth Finance Commission (TFC) for Sikkim limiting the fiscal deficit at the targeted level to ensure sustainable level of debt. The review also looks at the other budget management requirements enshrined in the Act like improving transparency and following the desirable fiscal management principles. The fiscal management principles enshrined in the Act aimed at maintaining debt stock at a sustainable level, using borrowed funds for productive use, pursuing tax policies with due regard to economic efficiency, pursuing expenditure policies to provide impetus to economic growth, and to formulating a realistic budget to minimize deviations during the course of the year.

As the State has a limited resource base and high dependence on central fund for provision of public services in a difficult hilly terrain, a prudent fiscal management is necessary. The FRBM Act with its stated objective to set up a sustainable fiscal policy over a long-run can improve the predictability of resource flow for the provision of physical and social infrastructure. This will also help the State Government to establish an enabling environment for investments and creation of employment.

The State Government entrusted the responsibility of reviewing the compliance of the Act for the year 2013-14 to the National Institute of Public Finance and Policy (NIPFP), New Delhi. The broad contours of the review are as follows:

- The report has analyzed the macroeconomic outlook and recent trends of public finance including revenue generation, expenditure framework, and the debt burden to assess the fiscal stance of the State government.
- The review report assessed the achievement of fiscal targets during 2013-14 as prescribed in the FRBM Act of the State.
- This review report evaluates the fiscal trends achieved during the year 2013-14 as against the budget projections contained in the rolling fiscal targets worked out in the Medium Term Fiscal Policy (MTFP) presented along with the budget.
- The report also assesses the desired fiscal management principles contained in the FRBM Act of the State to achieve the fiscal targets and transparency measures.

Senior officials of the Department of Finance provided overall perspective on the State fiscal management including revenue mobilization efforts and the rationale behind resource allocations to different sectors. While Commercial Tax department provided inputs on tax realization during the year, the spending departments shared their views on expenditure trends and priorities.

The report is organized as follows. Section 2 provides an overall assessment of macroeconomic outlook and sectoral composition of GSDP. Section 3 contains analysis on state finances in recent years. Compliance of the State Government to the fiscal targets and fiscal management principles under the Sikkim FRBM Act are covered in section 4. Issues related to revenue mobilization and expenditure pattern for the year 2012-13 as compared to the budget provisions are analyzed in Section 5. Concluding observations are contained in Section 6.

2. Macroeconomic Outlook

The GSDP of Sikkim recorded a growth rate of 7.88 per cent at constant prices and 18.18 percent in current prices in 2013-14 (Table 1). The trend growth rate over the period 2005-06 to 2013-14 at current prices was staggering 25 percent. This high growth of the GSDP during the period 2008-09 and 2009-10 has influenced the trend growth rate. The growth of the State GSDP was driven by manufacturing, construction, and power sectors. The per capita income of the state, which was Rs.30727 in 2004-05, has increased substantially to Rs.196144 in 2013-14 at current prices. The industry sector has accounts for about 60.35 percent of the State GSDP and manufacturing about33.71 percent in 2013-14. The relative share of service sector, which was the dominant contributor to the growth of GSDP since 2004-05, declined in the recent years. The relative share of primary sector has been declining over the years and the share of mining and quarrying activities remained very small.

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

3. Overview of the State Finances

Since the adoption of the FRBM Act in 2010-11, the State government managed to generate surplus in the revenue account and reduce the fiscal deficits below the permissible level prescribed in the Act (Figure 1). The introduction of FRBM Act provided the rule based fiscal management framework with defined deficit and debt targets. The fiscal deficit has declined from 4.27 percent relative to GSDP in 2010-11 to 0.63 percent in 2012-13 and further to 0.43 percent in 2013-14. The surplus in the revenue account, which declined from 8.42 percent relative to the GSDP in 2009-10 to 1.89 percent in 2010-11, has increased to 7.02 per cent in 2013-14.

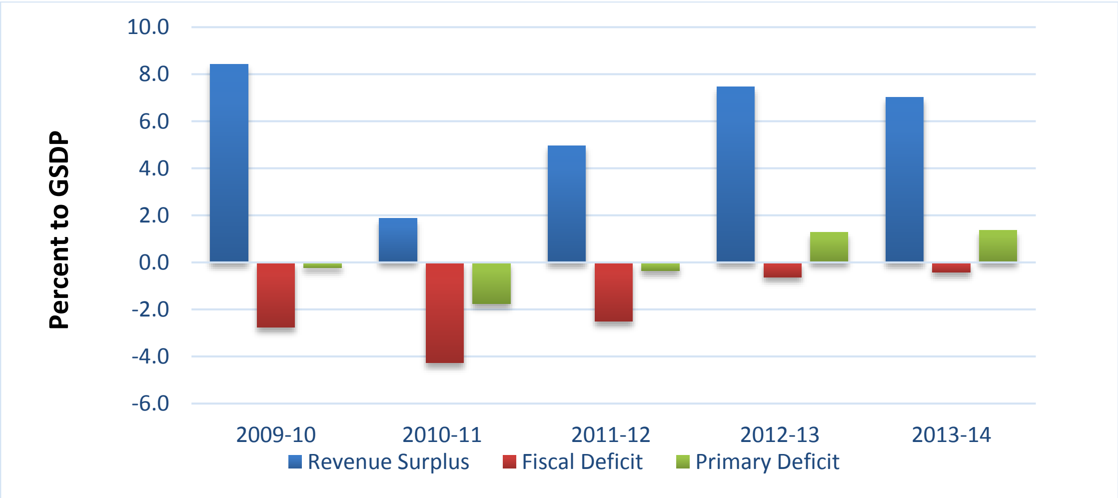
Table 1: Composition of GSDP (Constant Prices)

(Percent)

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

Source: CSO, GoI

Figure 1: Fiscal Outcomes in Sikkim



The high revenue surplus in recent years seems to have helped reducing the fiscal deficit considerably. Large revenue surplus in the State, like many other special category States, was due to high dependence on Central transfers, all of which are usually booked under revenue receipts. Many of the Central grants are tied grants, proceeds from which are utilized for capital expenditure. The capital expenditure as percentage to GSDP also remains high in the State. The low fiscal deficit in 2012-13 and 2013-14, indicates more of structural problems and inability of the State Government to utilize the Central funds. The unutilized Central funds do not lapse and add to the revenue surplus in the year they were received.

The fiscal outcomes up to 2013-14 for the State look favorable with a sizable revenue surplus, small fiscal deficit, debt-GSDP ratio below 25 percent. The fiscal stance shows availability of considerable fiscal space to the Government. During the period 2010-11 to 2013-14, the average capital outlay has remained at 7.44 percent of GSDP for the State. Although, this is reasonably high as compared to many other States in India, the capital outlay could have been larger given the fiscal space available to the State Government. The expenditure and revenue trends both at broad and decomposed levels need to be looked into to get a realistic idea of the implications of the observed fiscal stance of the Government.

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Figure 2: Broad Fiscal trends in Sikkim

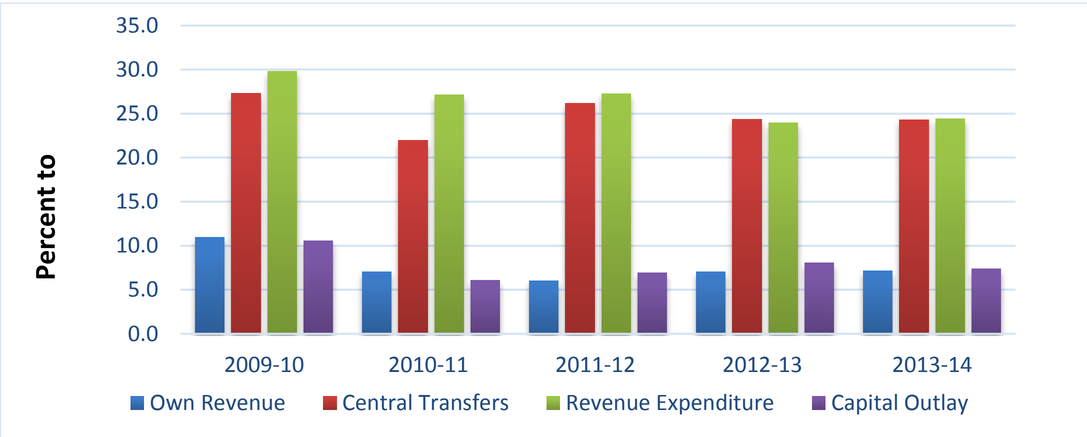


Figure 2 depicts the trends in own revenue receipts, central transfers, revenue expenditures and capital outlay (on general, social and economic services together). It shows that since 2010-11, the own revenue of the State, both tax and non-tax receipts taken together has remained almost same at about 7 percent of GSDP. The Central transfer that includes both the share in Central taxes and grants, to the State shows an increasing trend during this period. The aggregate Central transfers increased from 22 percent in 2010-11 to 24.3 percent in 2013-14 as percentage of GSDP. Given this resource position, the State Government seems to have tightly controlled the revenue expenditure. The revenue expenditure declined from 27.1 percent in 2010-11to 24.4 percent in 2013-14. The capital outlay however, shows an increasing trend since 2010-11. The capital outlay as percentage of GSDP increased from 6.1 percent in

2010-11 to 8 percent in 2012-133, which came down to 7.4 percent in 2013-14. The decline in capital outlay in 2013-14 as percentage to the GSDP when the revenue expenditure was controlled and resource position remained comfortable is a matter of concern.

The own revenue as percent to GSDP, during 2010-11 to 2013-14, remained at 7 percent except in 2011-12, when it declined to 6 percent (Table 2). The trend of revenue receipt figures reveal that own tax receipt of the State has increased as percent of GSDP. It has increased from 3.6 percent in 2009-10 to 4.2 percent in 2013-14. The non-tax revenue, though declined initially, remained at the same level during 2012-12 and 2013-14. The non-tax revenue in Sikkim contains large contributions from lottery operations and sale of electricity as the State Government manages the power sector through a department. The income from lottery operations has declined due to adverse market conditions and unfavorable policies by other State Governments. The aggregate revenue receipt of the state at 31.5 percent of GSDP was almost same as that of the previous year.

Table 2: Revenue Receipts in Sikkim

Percent of GSDP

	2009-10	**2010-11**	**2011-12**	**2012-13**	**2013-14**
Total Revenue Receipts	**38.2**	**29.0**	**32.2**	**31.4**	**31.5**
Own Revenue Receipts	10.9	7.0	6.0	7.0	7.2
Own Tax Revenues	**3.6**	**3.8**	**3.3**	**4.2**	**4.2**
Sales Tax	2.0	1.9	1.4	2.2	2.3
State Excise Duties	0.9	1.0	1.1	1.1	1.0
Motor Vehicle Tax	0.1	0.1	0.2	0.2	0.1
Stamp Duty and Registration Fees	0.1	0.1	0.1	0.1	0.1
Other Taxes	0.5	0.7	0.5	0.7	0.8
Own Non-Tax Revenues	**7.3**	**3.3**	**2.7**	**2.9**	**2.9**
Central Transfers	**27.3**	**22.0**	**26.2**	**24.4**	**24.3**
Tax Devolution	6.1	7.1	6.9	6.7	6.2
Grants	21.2	14.9	19.3	17.7	18.1

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

While, the sales tax collections have remained more or less static at around 2 percent of GSDP during 2009-10 to 2010-11, it plunged to 1.4 percent in 2011-12 before rising to 2.2 percent in 2012-13 and further to 2.3 percent in 2013-14. State excise duty remained at about 1 percent of GSDP. The collection from stamps and registration fees remained static at 0.1 percent of the GSDP and other tax show an increase in 2013-14.

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

The central transfer to the State is large, which constitutes little more than there fourths of the total State revenues. High dependency of the State on Central funds implies severe distortions in the resource allocation in case there is any deviation from the budget estimates. The central transfer has increased from Rs.1630 crore in 2010-11 to Rs.3007 crore in 2013-14 in nominal terms. As percentage of GSDP, the Central transfer has increased from about 22 percent to 24.4 percent during this period. While the share in Central taxes has declined relative to the GSDP, the grants from Centre have increased considerably. The transfer dependency of the State has only increased due to the subdued revenue effort over the years.

As the public expenditure is dominated by the revenue expenditure, which has declined in recent years, its composition needs to be analyzed to examine the resource allocation to different sectors. The composition of revenue expenditure, given in Figure 3, shows that the relative shares of directly productive economic sector increased until 2012-13, its share declined in 2013-14. The share of social service, after declining from 40.58 percent in 2010-11 to 37.79 in 2012-13, increased to 42.19 percent in 2013-14. The share of general service has remained constant during this period. It is important for the Government of Sikkim to focus on directly productive social and economic sectors so that the overall composition of revenue expenditure adds value to the public expenditure.

Composition of revenue expenditures can also be examined from the point of view expenditures that are contractual, committed, and pre-determined in nature. Higher share of committed expenditure in total revenue expenditure reduces the discretionary expenditure on providing public services and limits the degree of flexibility available to the government in determining allocation of public expenditures. The committed expenditure in Sikkim, while declining in 2012-13 over 2011-12, increased in 2013-14 due to higher salary and pension payments.

Figure 3: Composition of Revenue Expenditure in Sikkim

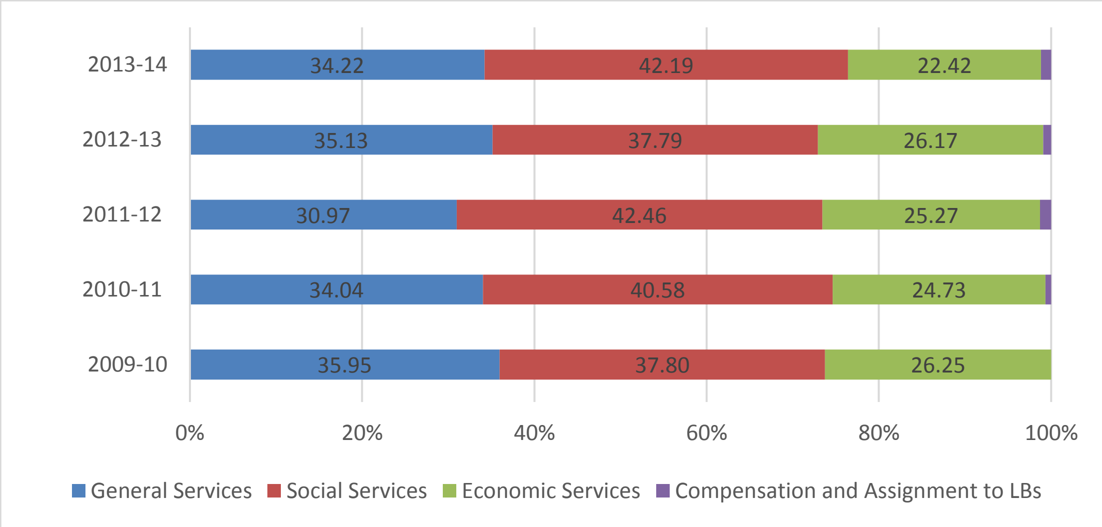


Table 3: Committed Revenue Expenditure in Total Revenue Expenditure

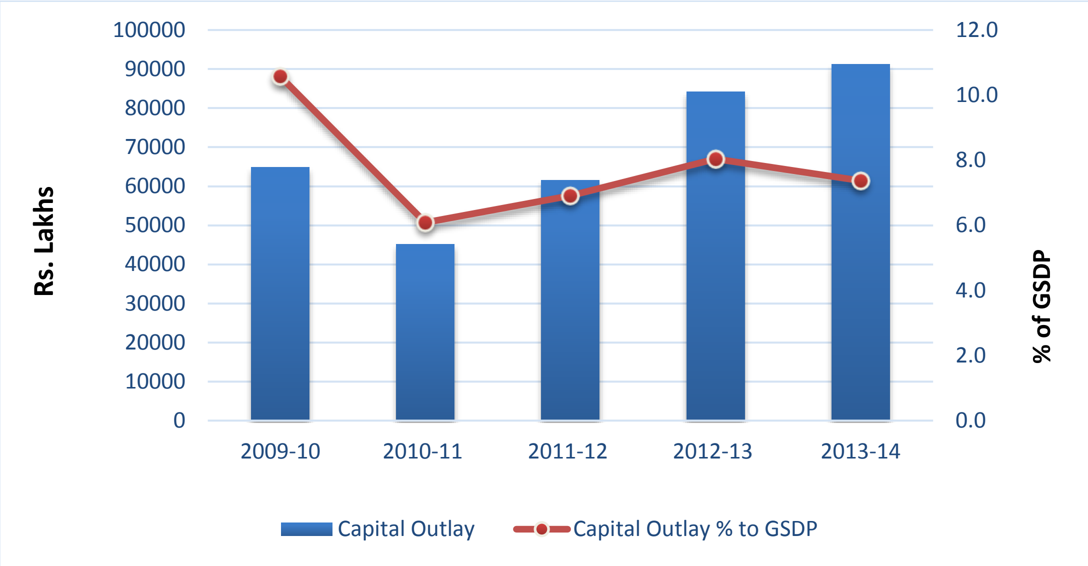
(Percent)

	2009-10	2010-11	2011-12	2012-13	2013-14
Salaries	54.05	55.55	44.08	37.09	44.65
Interest payment	8.44	9.28	7.85	7.93	7.31
Pension	6.88	7.96	7.15	8.98	8.62
Total	69.37	72.79	59.08	54.00	60.58

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

The Capital outlay on various services (general, social, and economic) in the State has remained reasonably high (Figure 4). Although as percentage of GSDP, it increased from 6.09 percent in 2010-11 to 8.4 percent in 2012-13, it declined to 7.37 percent in 2013-14. In nominal terms, the capital outlay has almost doubled during 2010-11 to 2013-14. Capital expenditures of the right kind have a major role to play in stimulating the rate of growth of the state economy. It contributes to growth more directly. Although, capital expenditure was showing a positive trend, its decline as percentage to GSDP in 2013-14 is matter of concern. There was scope for pushing this up, as the fiscal deficit in 2013-14 was very low as compared to the FRBM Act targets. The State government should finance identified public investments with high social returns.

Figure 4: Capital outlay in Sikkim



The indebtedness of the Government of Sikkim has declined significantly over the years (Table 4). Taking all types of liabilities, the total stock decreased from 32.78 percent of GSDP in 2010-11 to 24.79 percent in 2013-14, with indebtedness falling consistently every year throughout the period. FRBM Act of the state stipulates to maintain the outstanding debt at prudent and sustainable level. The decline in the average cost of debt of the state because of the debt restructuring formula of the Twelfth Finance Commission has helped to lowering the debt burden. As the State Government managed to adhere to the FRBM Act targets for the fiscal deficit and reducing the fiscal deficit to 0.43 percent of GSDP in 2013-14, the debt burden has reduced significantly. The aggregate level of indebtedness in 2013-14 indicates that the State Government complied with the TFC recommendations and its own FRBM targets.

Table 4: Liabilities of the Government of Sikkim

(Percent of GSDP)

	2009-10	2010-11	2011-12	2012-13	2013-14
A. Public Debt	29.21	24.47	20.80	18.89	17.66
Internal Debt	24.62	20.96	19.03	17.46	16.63
Loans from the Central Government	4.59	3.51	1.76	1.42	1.03
B. Other Liabilities	8.17	8.32	7.87	7.45	7.13
Small Savings, Provident Fund	6.71	6.88	6.50	5.96	5.54
Reserve Fund	0.39	0.28	0.21	0.13	0.41
Deposits	1.07	1.15	1.16	1.36	1.18
Total Public Debt & Other Liabilities	37.39	32.78	28.66	26.34	24.79

Source (Basic Data): Finance Accounts, Relevant Years

4. Compliance to the FRBM Act Targets: 2013-14

4.1 FRBM Targets and Fiscal Achievements of the State Government

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

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

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

The Government of Sikkim presented the MTFP statement based on the FRBM rule format that contains macroeconomic statement, projections of fiscal targets and fiscal management principles with regard to revenues and expenditures for three years along with the 2013-14 budget documents. The objective of MTFP is to provide the fiscal plan of the Government to raise the revenues, resource allocation priorities, and borrowing plan for the ensuing year in a transparent way. This statement contains three-year rolling targets for revenue deficit, fiscal deficit, and the debt-GSDP ratio – for the ensuing year, and for two subsequent years synchronizing with the Act provisions. It also contains medium-term fiscal objectives, perspective on the growth of the State economy, the strategic priorities for revenues and expenditures, and the conformity of the fiscal outlook of the Government with the fiscal principles enshrined in the Act. The first year of the MTFP projections is the budget estimates for the year 2013-14.

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

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

The fiscal year 2013-14, was not much different to the previous year in terms generating revenues and spending as proportion to the GSDP. The aggregate revenue receipts at 31.46 percent and revenue expenditure at 24.44 percent was close to the figures achieved in the previous year. Thus, while the State Government managed to hold on to the revenue receipts as percentage to GSDP, they allowed a marginal increase in the revenue expenditure in 2013-14. The surplus in revenue account was 7.02 percent of the GSDP in 2013-14. The capital outlay however, experienced a decline from 8.08 percent in 2012-13 to 7.44 percent in 2013-14. Control over revenue expenditure, a reduction in capital outlay has resulted in a very low fiscal deficit of 0.43 percent of GSDP in 2013-14. This is much less than the 3 percent limit stipulated in the FRBM Act.

The fiscal targets specified in the FRBM Act and the outcomes for the year 2013-14 are shown in Table 5. Against the Act requirement of maintaining balance in the revenue account, and limiting the fiscal deficit to 3 percent of the GSDP, the State Government achieved a revenue surplus of 7.02 and fiscal deficit of 0.43 percent respectively. In nominal terms, the revenue surplus has increased from Rs.780.97 crores in 2012-13 to Rs.868.48 crores in 2013-14. On the other hand, the fiscal deficit has been reduced from Rs.65.59 crores to Rs.55.95 crores during the same period. As the Act requires the deficit to be expressed as a ratio to the GSDP, the revenue and fiscal deficit of the State in 2013-14 remained within the limit imposed by the Act. Outstanding debt burden, an outcome of the fiscal management the State, at 24.79 percent relative to the GSDP remains much lower than the target of 58.8 percent. The other fiscal target, outstanding guarantee, remained within the specified limit of Sikkim Ceiling on Government Guarantee Act 2000. Thus, the fiscal outcomes for the year 2013-14 comply with the fiscal targets stipulated in the FRBM Act. However, substantial reduction in fiscal deficit and debt burden raises the question regarding the necessity of the adjustment to such a magnitude. The large fiscal space available to the Government was not utilized effectively.

Table 5: FRBM Act Targets and Fiscal Achievements during 2013-14

Percent

	Targets	Achievements
Revenue Deficit % of GSDP	-8.18	-7.02
Fiscal Deficit % of GSDP	2.52	0.43
Total Debt Stock % of GSDP (TFC Target)	25.11	24.79
Outstanding Guarantee	Restricted to the limit under the Sikkim Ceiling on Government Guarantees Act, 2000	

Note: Negative sign for deficit figures indicate surplus

4.2 Fiscal Management Principles

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

Debt Management

The debt management principles of the FRBM Act require the State Government to maintain debt at a prudent level, manage guarantees and other contingent liabilities prudently, and use borrowed funds for productive purposes and create capital assets. The borrowed resources should not be used to finance current expenditure. Indeed, the debt management policy of any Government aims at meeting the financing needs at the lowest possible long-term borrowing costs and to keep the total debt within sustainable levels. The debt stock as percentage of GSDP has declined substantially to 24.79 percent in 2013-14.

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

Table 6: Borrowings and Repayments: 2013-14

(Rs. Lakh)

	Budget Estimates	Actual	Difference
Public Debt Receipts			
Internal Debt	37346.00	29401.47	-7944.53
Loans Advances from Central Government	1450.00	230.86	-1219.14
Public Debt	38796.00	29632.33	-9163.67
Small Savings and Provident Fund	20418.57	24254.21	3835.64
Total	59214.57	53886.54	-5328.03
Debt Repayments			0.00
Internal Debt	6606.50	6446.50	-160.00
Loans Advances from Central Government	1072.67	2427.31	1354.64
Public Debt	7679.17	8873.81	1194.64
Small Savings and Provident Fund	20408.60	18104.73	-2303.87
Total	28087.77	26978.54	-1109.23

Source: Finance Accounts and Budget Document for the year 2013-14 & 2015-16

The FRBM Act requirement of using borrowed funds exclusively for creating capital assets is satisfied as the State Government has been successfully generating large surplus in revenue account consistently. The State Government needs to borrow to finance the deficit arising due to capital outlay and any deficit in the revenue account. The capital outlay in Sikkim has remained reasonably high due to tied nature of the plan grants coming to the State. A revenue surplus has provided fiscal space to the Government to increase the capital outlay and keep the debt burden sustainable. Between the years 2010-11 and 2013-14, the capital outlay as percentage of GSDP has increased from 6.9 percent to 7.37 percent. However, the capital outlay as percentage to GSDP is less than that of the previous year. Given the fiscal space available to the State Government, the capital expenditure could have been scaled up.

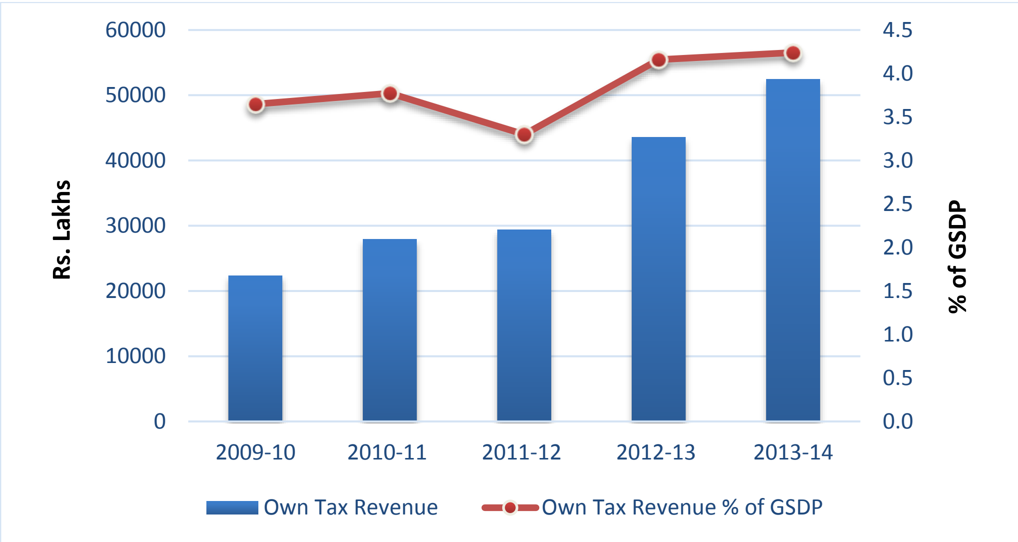
Tax Policy and Administration

The FRBM Act requires the State Government to maintain integrity of the tax system by minimizing special incentives, concessions and exemptions. It also calls upon the Government to pursue the tax policy with due regard to economic efficiency and compliance cost. The own tax revenue, as percentage of GSDP; shows a rising curve since 2009-10 (Figure

5). One of the important features of a good tax system is to maintain stability and predictability in the level of tax burden. The own tax revenue as percent of GSDP declined in 2011-12 due to low level of sales tax collection. However, in 2013-14, it has increased to 4.2 percent of GSDP from 3.3 percent realized in the previous year. There have not been many changes in tax rate of individual State taxes. The VAT regime, introduced in 2005, has stabilized in terms of rate and base structure in the State.

Collecting sufficient revenues to carry out functional responsibilities without distorting economic decisions of people relative to saving and consumption and market behavior imparts economic efficiency to the tax system. The introduction of VAT and stabilization of the rate structure in the State has reduced any discretionary changes in the tax policy. The State Government has made efforts to modernize the tax administration and introduced electronic payment taxes, e-filing of returns and generation of Waybills and statutory forms on electronic mode. This has improved the tax collection in the fiscal year 2013-14.

Figure 5: Own Tax Revenue as Percentage of GSDP



The FRBM Act also calls upon the Government to raise non-tax revenue with due regard to cost recovery and equity. The non-tax revenue of the State contributes significantly to the own revenue of the State. Although, as percentage of GSDP, it has shown marginal rise in 2013-14 over the previous year, its relative share in total own revenue of the State declined. The major share of non-tax revenue of the State comes from provision of electricity and transport and lottery operation. In addition to these sources, the non-tax revenue includes income from interest earnings, police, and forestry. These sources, particularly the lottery income, have not proved to be stable sources of income. The scope for reducing subsidy and improving cost recovery from other services provided by the Government in the social and economic sectors seems to be limited. However, the Government should make efforts to improve cost recovery in economic sectors by improving the quality of the service provided.

Expenditure Policy and Institutional Measures to Improve Quality of Expenditure

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

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

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

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

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

5. Budget Credibility: Projections and Outturns

The fiscal management principles require that budget should be formulated in a realistic manner to minimize the deviations from the projected revenues and expenditures. In this section, a comparison between budget estimates and fiscal outturns for the year 2013-14 is provided. The ability to raise the projected revenue and implement the budgeted expenditure is an important factor that shows the capacity of the Government to deliver the public services as enunciated in the Government policies. Table 7 shows the fiscal variables as projected in the budget for the year 2013-14 and the achievements for the year. The fiscal indicators for both the budget estimates and budget outturns are shown as percentages of the GSDP at current prices.

The budget outcomes for the fiscal year 2013-14 fell short of the estimates in the case of both revenues and the expenditures. The revenue receipts declined by about 3 percent of budget estimates, the revenue expenditure was low by 1.80 percentage points and capital outlay fell short by 3.26 percentage points relative the GSDP. While the Government managed to improve the own revenue receipts as compared to the budget estimates, the central transfers fell short of the budget estimates by 4.11 percentage points mainly due to decline in grants by 3.55 percentage points. The State Government compressed the revenue expenditure from 26.2 percent of GSDP to 24.4 percent. The revenue surplus at 7 percent of GSDP was lower than the budget against of 8.2 percent.

In the case of capital expenditure, there was a shortfall of 3.26 percentage points relative to the GSDP. Thus with the decline in capital outlay and the level of revenue surplus achieved, the State government managed to achieve a fiscal deficit of 0.4 percent of GSDP as against budget projection of 2.5 percent, an improvement of 2.09 percentage points. The outcome of the budget management during the fiscal year 2012-13 was the decline in debt stock from 25.1 percent of GSDP to 24.8 percent.

Table 7: Budget Estimates and Outturns for the year 2013-14

(Percentage of GSDP)

	2013-14	2013-14 (BE)	Difference (Actual to BE)
Revenues	31.5	34.4	-2.96
Own Tax Revenues	4.2	3.4	0.80
Own Non-Tax Revenues	2.9	2.6	0.35
Central Transfers	24.3	28.4	-4.11
Tax Devolution	6.2	6.7	-0.56
Grants	18.1	21.7	-3.55
Revenue Expenditure	24.4	26.2	-1.80
General Services	8.4	8.7	-0.37
Social Services	10.3	10.2	0.11
Economic Services	5.5	6.9	-1.37
Compensation and Assignment to LBs	0.3	0.4	-0.16
Capital Expenditure	7.4	10.7	-3.26
Revenue Deficit	-7.0	-8.2	1.16
Fiscal Deficit	0.4	2.5	-2.09
Primary Deficit	-1.4	0.9	-2.21
Outstanding Debt	24.8	25.1	-0.32

Source: Basic data – Finance Accounts and Budget Document for the year 2015-16, GoS
GSDP data used are of 2004-05 series

The comparison of the budget outcomes and estimates reveal several issues pertaining to expenditure management and budget projections. While the State Government managed to generate higher resources internally from internal tax and non-tax sources, the decline in Central transfers, particularly the grants, pulled down the aggregate resources by about 3 percentage points relative to GSDP. This is not a case of delayed receipts, where the amount remains unspent and being tied grants utilized in the next year. This is a case of non-receipt of Central transfers. There could be two major reasons for this deviation. First, the inability of putting State's share in central programs stops the release of the second installment of already agreed upon fund flows. The second could be biased projection of the flow of funds to State plan under the Central transfers. This happens mainly in the case of NEC and NLCPR transfers. The priority of the State Government is towards funding its own programs, which reduces fund availability to provide for the State's share. Given the dependence of the State on Central funds, it is appropriate to focus on providing the State's share in the scheme of the plan financing and get the projected Central funds.

The second major issue in the budget management is the deviation of capital outlay from the budget estimates. The deviation in capital expenditure by 3.26 percent in 2013-14 is closely related to delayed receipt of Central grants resulting in large unspent amounts and the structural problems encountered in implementing the projects in the infrastructure sector. The fiscal space available to the State Government in terms of large revenue surplus was not utilized effectively.

The third aspect is very low level of fiscal deficit as compared to the limit imposed under the FRBM Act. The fiscal deficit of 0.4 percent to GSDP seems too low as compared to the FRBM Act target of 3 percent. This was achieved by reducing the capital outlay by 3.26 percentage points. The fiscal management principle enunciated in the FRBM Act calls upon the State to respond appropriately to eliminate the revenue deficit and contain the fiscal deficit at a sustainable level. However, limiting the fiscal deficit to only 0.4 percent of GSDP is a matter of concern for the budget management process.

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

5.1 Disaggregated Analysis of Revenue Receipts

Table 8 shows the detailed sources of actual and budgeted revenue receipts. The realized own tax revenue has exceeded the budget estimates by Rs.99.24 crores, which forms about 23 percent of budget estimates. Out of this, sales tax accounts for Rs.61.32 crores, State excise Rs.11.64 crores, and other taxes and cess Rs.25.92 crores. Thus, the increase in own tax collection was mostly driven by sales tax, excise duty and other taxes. The other taxes, which includes cess on sale of petrol and diesel going to transport infrastructural development fund and a cess on VAT, which is collected from all non-biodegradable goods at a rate of one percent. The environment cess goes to an ecology and environment fund.

The official explanation for the surge in collection of sales tax revenue during 2013-14 was the starting of online tax filing system and putting the waybill online, which improved the efficiency of tax collection and transparency. Indeed online filling of sales tax strengthens the tax administration and helps the collection of tax. The higher realization by 27 percent of the budget estimate is very large. The tax department should improve its projection process to help the policy maker to take efficient resource allocation decisions. The rise in cess on VAT is caused by the higher collection of sales tax/Vat during the fiscal year 2013-14.

The State Government raised non-tax revenue of Rs.43.10 crores more than what was budgeted for the year 2013-14. Higher realization from the interest receipts, by Rs.38.17 crores was the major reason for higher realization of non-tax revenue. The higher interest receipts were due to increase in investment of cash balances. This rise in cash balance is related with unspent amount from the funds received for centrally sponsored schemes. Among the major sources of non-tax revenue, while lottery income increased by Rs.16.09 crores, income from power sector fell short of the budget estimates Rs.11.17 crores. The shortfall in power sector income seems to be due to overestimating in the budget for the year 2013-14 as compared to the previous year.

Table 8: Revenue Realization: 2013-14

Rs. lakh

	2012-13	2013-14 (BE)	2013-14	Difference (Actual to BE)	Difference as % to BE
Own Tax Revenues	**43547.98**	**42567.62**	**52491.97**	**9924**	**23**
Sales Tax	22708.38	22500.00	28632.48	6132	27
State Excise Duties	11112.44	10900.00	12064.01	1164	11
Motor Vehicle Tax	1638.22	1680.00	1852.17	172	10
Stamp Duty and Registration Fees	534.75	791.20	645.47	-146	-18
Other Taxes	7520.77	6695.30	9287.38	2592	39
Own Tax Revenues (less State Income tax)	43564.69	42568.18	52497.20	9929	23
Own Non-Tax Revenue	**30200.36**	**31849.19**	**36159.39**	**4310**	**14**
Interest Receipts	4600.02	2885.00	6702.16	3817	132
Dividends and Profits	153.20	100.00	54.56	-45	-45
Police	4922.75	5029.31	4113.82	-915	-18
Public Works	470.35	445.67	468.01	22	5
Administrative Services	964.10	429.32	1106.24	677	158
Net Lottery Income	4142.80	40.00	56.09	16.09	40
Education, Sports, Art & Culture	137.20	169.40	137.90	-32	-19
Medical and Public Health	149.89	127.00	218.51	92	72
Water Supply and Sanitation	273.62	386.60	316.79	-70	-18
Urban Development	97.01	48.85	99.44	51	104
Forestry and Wildlife	1228.01	1535.00	1426.93	-108	-7
Plantations	398.00	350.00	361.77	12	3
Other Rural Development Programme	146.17	150.00	213.07	63	42
Power	8289.57	11010.00	9892.85	-1117	-10
Road Transport	2901.05	3604.00	3409.63	-194	-5
Tourism	213.37	560.00	264.99	-295	-53
Others	1113.25	5019.04	7372.72	2354	47
Central Transfers	**255087.71**	**351574.52**	**300702.97**	**-50872**	**-14**
Tax Devolution	69848.00	83155.00	76262.00	-6893	-8
Grants	185239.71	268419.52	224440.97	-43979	-16

In the case of Central transfers, the tax devolution to the State declined by Rs.68.93 crores compared to the budget estimates, which accounts for about 8 percent of the budget estimates. However, the grants both plan and non-plan taken together, was less by Rs.439.79 crores, which is about 16 percent of the budget estimates. The factors like overestimation for the year and non-receipts of funds under several centrally sponsored schemes have caused this shortfall in 2013-14. The projected fund flow under many centrally sponsored schemes and schemes funded by NEC and NLCPR not materialize in 2013-14.

5.2 Disaggregated Analysis of Expenditure Pattern

The decomposed revenue expenditure profile for the year 2013-14 given in Table 9 shows that the revenue expenditure fell short of the budget estimates by Rs.222.21 crores. This amount forms 6.84 percent of budget estimates in nominal terms and 1.80 percent relative to GSDP. The gap in actual spending as compared to the budget estimates was due to shortfall of 4.26 percent in general services, 20.03 percent in economic service. The spending in social services was higher by 1.07 percent. Thus, the contraction in revenue expenditure was more due to shortfall in spending in productive economic services.

Looking at various components of revenue expenditure it is clear that the savings, unutilized portion of the voted amount, was rather spread across many sectors. For instance, savings of Rs.22.94 crores in pension payment was due to non-payment of retirement benefits. While actual spending under aggregate social services was little higher than the budget estimates, lower actual spending was found in the case of water supply & sanitation, welfare of SCs, STs & OBCs and social welfare and nutrition. The concerned departments pointed out various reasons like non-payment of scholarships, cost reduction due to direct payment to beneficiaries' accounts, non-submission of bills, etc. In some cases, non-receipt of funds from the Central Government reduced the planned spending.

In the economic service, two sectors where the utilization was discernibly low were the forestry sector under agriculture and allied activities and irrigation. In the case of forestry, non-receipt of state share and the desired funding from JICA for the biodiversity project was the major reason for deviating from the budget estimation. The department also failed utilizing the funds under forest management capacity building recommended by the 13th FC in 2013-14. The cess collected for ecological fund was also not coordinated properly with the forest department hindering its utilization. In the case of irrigation as the planned infrastructure building was not carried out, the revenue expenditure was reduced.

The major shortfall in utilization of budget estimates during the year 2013-14 was found in the capital expenditure. The actual expenditure was less by Rs.403.07 crores, which was about 31 percent of the budget amount. This is quite large given the size of the State budget.

The capital outlay fell short of the budget estimates by large amount in all sectors – general, social, and economic services. In the case of general services a shortfall of Rs.34.54 crore was found as compared to the budget estimates. In the case of economic services, the shortfall of Rs158.88 crore was large. The sectors where major shortfall was witnessed were education, water supply and sanitation, energy, transport and tourism. In other sectors like health, agriculture, and rural development shortfalls were also witnessed during the year.

Table 9: Revenue Expenditure Profile

Rs.Lakh

	2012-13	2013-14 (BE)	2013-14	Changes over 13-14 (Actual to BE)	Difference in % to BE
Revenue Expenditure	**250739.00**	**324727.52**	**302506.12**	**-22221.40**	**-6.84**
General Services	**88087.63**	**108119.45**	**103510.94**	**-4608.51**	**-4.26**
Interest Payment	19892.25	20671.79	22116.09	1444.30	6.99
Pension	22517.47	28356.92	26063.29	-2293.63	-8.09
Other General Services Excluding Salary	45677.91	59090.74	55331.56	-3759.18	-6.36
Social Services	**94746.60**	**126287.55**	**127635.86**	**1348.31**	**1.07**
Education	51415.78	61922.19	63016.08	1093.89	1.77
Medical and Public Health	12566.71	13493.58	14457.78	964.20	7.15
Water Supply & Sanitation	1902.90	2254.36	2219.04	-35.32	-1.57
Welfare of SCs, STs & OBCs	1998.68	3315.62	2599.14	-716.48	-21.61
Social Welfare & Nutrition	7746.63	16693.86	15605.34	-1088.52	-6.52
Other Social Services	19115.90	28607.94	29738.48	1130.54	3.95
Economic Services	**65610.51**	**84809.68**	**67818.59**	**-16991.09**	**-20.03**
Agriculture and Allied	21310.51	31378.03	23560.47	-7817.56	-24.91
Rural Development	10929.29	9084.27	9318.59	234.32	2.58
Irrigation and Flood Control	5518.08	14704.51	3978.31	-10726.20	-72.94
Energy	10729.97	11205.54	12044.29	838.75	7.49
Industry and Minerals	2528.16	2814.60	2990.61	176.01	6.25
Transport	10723.18	12363.92	12774.36	410.44	3.32
General Economic Services	3600.34	2890.86	2829.27	-61.59	-2.13
Other Economic Services	270.98	367.95	322.69	-45.26	-12.30
Compensation and Assignment to LBs	**2294.26**	**5510.84**	**3540.73**	**-1970.11**	**-35.75**

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

Table 10: Capital Expenditure Profile

	2012-13	2013-14 (BE)	2013-14	Difference (Actual to BE)	Difference as % to BE
Capital Outlay	84234.65	131501.56	91194.61	-40307	-31
General services	8330.72	20406.61	16952.34	-3454	**-17**
Capital Outlay on Police	687.23	583.04	1488.72	906	**155**
Capital Outlay on Public Works	7643.5	1945.77	15463.62	13518	**695**
Social services	29122.08	47585.89	26621.35	-20965	**-44**
Education, sports, art & culture	6219.01	7518.48	4979.97	-2539	-34
Medical and Public Health	10137.55	10764.87	9346.68	-1418	-13
Water supply and sanitation	12621.94	27772.48	11114.36	-16658	-60
Information, Publicity & Broadcasting	73.65	25.00	25.00	0	0
Welfare of sc, st and other backward castes	69.93	535.48	186.06	-349	-65
Social security nutrition	0.00	969.58	969.28	0	0
Economic services	46781.85	63509.06	47620.92	-15888	**-25**
Agricultural and allied services	937.55	1866.28	1239.95	-626	-34
Rural development	2003.94	2711.29	1928.69	-783	-29
Special areas	1739.72	1900.00	1169.95	-730	-38
Irrigation and flood control	711.76	469.49	379.46	-90	-19
Energy	4366.31	4579.57	6625.45	2046	45
Industries and minerals	419.04	533.01	411.46	-122	-23
Transport	31588.92	35199.67	29533.23	-5666	-16
Tourism	4963.61	16174.75	6307.73	-9867	-61

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

6. Concluding Remarks

The State finances of Sikkim in 2013-14 shows stagnancy in both revenue generation and spending pattern as compared to the previous year when fiscal variables expressed as percentage to GSDP. The own revenues and Central transfers remained very close to the levels achieved during the previous year. While the revenue expenditure increased marginally by 0.5 percentage points, capital expenditure declined by 0.6 percentage points as compared to the previous year. The State Government managed to achieve revenue surplus of about 7 percent of GSDP in 2013-14, which was once again little less than what was achieved in 2012-13. The surplus in revenue account continues to be a usual feature of the State finances of Sikkim due to large transfers from the Central Government. The revenue surplus helps the State to finance the capital outlay, which remains reasonably high in the State. With an unchanging resource position and spending pattern as compared to the previous year, the fiscal deficit was only 0.43 percent in 2013-14 as compared to the permissible level of 3 percent to GSDP. Consequently, the outstanding debt burden was reduced to 24.79 per cent relative to the GSDP, which was well below the 58.8 percent level recommended as prudent by the 13th Finance Commission. The fiscal outcomes for the year 2013-14 conform to the FRBM Act targets.

Although the targets of the FRBM Act are the benchmarks for the fiscal management, the overarching objective of any government is to provide good governance and improve the quality of life of its citizens. This is the second year, in which the fiscal deficit remained at very low level as compared to the targets. The scale of adjustment relating to the fiscal deficit and debt burden riding high on a substantial revenue surplus raises the question regarding the necessity of the adjustment to such a magnitude. Both the revenue expenditure and capital expenditure were compressed in 2013-14 as compared to the previous year. The revenue expenditure on productive economic services has been reduced in 2013-14.

The deviations from the budget estimates for the year 2013-14 indicates that the utilization of capital outlay was less by about 31 percent. The large deviation between budgeted and actual capital expenditure raises important questions regarding the program formulation and execution in the State. Undertaking infrastructure building in a large scale in the difficult terrain of Sikkim requires huge improvement in capacity to conceptualize projects and implement them properly. The ground level bottlenecks in the implementation process like disputes in acquiring land, legal provisions relating to clearances for environment and forest, utilization of previous installment to facilitate further funding, and providing State's share of funding in time and coordination among the implementing departments are issues that need to be addressed. Further, the State Government needs to improve its budget management practice and coordinate with the Central Government to streamline the fund flow process. The delay in release of the Central funds under various schemes is one of the major reasons for lower utilization budgeted funds emergence of large revenue surplus.

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