FINANCE DEPARTMENT
GOVERNMENT OF SIKKIM

MEMORANDUM TO THE SIXTEENTH FINANCE COMMISSION

Table of Contents

Executive Summary

Distribution of resources between Centre and States are mandated by the Constitution. Finance Commission is constituted every 5 years to decide the distribution of resources. There is a vertical distribution- through Divisible Pool and Union Tax resources are shared between the Union and States from this pool. There is horizontal distribution or interstate sharing through defined parameters from Divisible Pool. There is an additional allocation for Local Bodies, Disaster Relief, while State Grants are outside the Divisible Pool.

The core terms of reference of the Commission are in line with the objectives of resource sharing and a rationale there of. The broad terms of reference of the Sixteenth Finance, for an award period from April 2026 to March 2031 is broadly the following:

- Division of Tax Proceeds: Recommending the distribution of taxes between the Union Government and the States.
- Establishing the principles governing grants-in-aid to the States from the Consolidated Fund of India, specifically under Article 275 of the Constitution.
- Enhancing State Funds for Local Bodies-supplementing the resources available to Local Bodies.
- Evaluation of Disaster Management Financing.
- Other matters, though not mentioned could be covered under Article 280.

Vertical Distribution between Union and the States

There are multiple sources of transfer of resources and Finance Commission, though most significant, is on them. Institutions, type of transfer and their rationale is as indicated below:

Institution and Type of Transfers	Method	Rationale
Finance Commission		
Share in Central Taxes	Formula based	Vertical Equity
Inter State Sharing from Divisible Pool	Formula based	Vertical & Horizontal Equity
General Purpose Grants	Based on Revenue Deficit	Horizontal Equity
Special Purpose Grants	Discretionary Sector Specific	Merit Goods
Central Ministries/Other Agencies		
Special Purpose Grants	Discretionary Sector Specific	Merit Goods

The transfer of resources is mandated because of the asymmetry of resources between the Union and the States. This asymmetry arises because:

- Union Taxes and duties are more buoyant and raises higher resources as these are based on both income and expenditure.
- Transfers have been a significant component of the State Resources.
- Expenditure Commitments for States far exceeds the Union.

- State, being the key implementing channel of schemes which have a direct bearing on people including social and economic empowerment, citizen centric initiatives and governance.

Transfers of tax resources have remained below the recommended levels largely by design and through use of Cess and Surcharge and collection expenses. Further Non-tax revenue by definition have been kept out of the Divisible Pool. There has been historically a change in sharing of resources and the pie has consistently been raised. From a few taxes such as Income Tax and Excise duties, Twelfth Finance mandated transfer of all taxes less Cess and surcharge and the same was affected through 80th Constitutional Amendment Act. Fourteenth Finance Commission raised the limit of Divisible Pool to 42 percent of Union Taxes. We have proposed further increasing the pie to make Divisible Pool inclusive of:

- Divisible pool should consist of Gross Revenue Receipt of the Union, which will eliminate the issues relating to non-inclusion of cess, surcharge and non-tax revenue.
- 40 percent of resources should be earmarked as States' share in divisible pool.
- Since moving to GRR requires a Constitutional Amendment of a similar nature as was the 80th Amendment, if considered non feasible, share in taxes should be raised to 50 percent.
- Further, there should be a cap on cess, surcharge and collection costs to an extent of 20% of GTR; anything above should get automatically included in the Divisible Pool.

Horizontal sharing of taxes between the States

Every Commission has adopted a set of parameters for interstate sharing. It is felt that equity consideration has been overplayed affecting the transfer of resources to the so-called better off States adversely. While the impact on such transfers on convergence of income or comparable level of services has not been conclusively established, it has certainly affected allocation of resources by these States. It is therefore proposed for consideration of the Finance Commission the criteria, (together with the weights that may be assigned to each of these) that may be adopted for inter-state distribution of resources from the divisible pool, which while being equitable would also be consistent with their needs. We have proposed the following parameters with the weights for horizontal sharing.

Sl. No.	Criteria	Weight of Sikkim @100 Weight	Weight Proposed	Share of Sikkim
1	Population	0.052	20	0.2000
2	Area	2.0	20	0.4000
3	Income Distance	0.010	25	0.00253
4	GSDP Level	0.167	10	0.0167
5	Forest Cover	0.490	20	0.0980
6	SDGs	0.056	5	0.0028
	Total		**100**	**0.7200**

Fiscal need- Population: Most of the services and programmes which are at the core of a more equitable social order and human resource development are all population centric. Since need refers to the reach or access of administrative, social and economic services to individuals nothing better captures it than the population. It is often argued that though population is considered a neutral parameter, there are invariably some economies of scale. We suggest that given the economies of scale and lower cost in providing civic amenities and other services to a relatively larger concentrated group, a minimum of 1 percent as weightage be accorded to smaller states. Overall weight of population may be kept at 20 percent with less populated States with population share of less than 1 percent being allocated minimum 1 percent and rest proportionately allocated according to size of population.

Fiscal cost- Area: The Tenth Finance Commission for the first time added area as a criterion for inter-state distribution of resources. Together with population, area (or dispersal of population) determines the quantum and cost of delivery of services/infrastructure. The earlier Commissions assigned a minimum 2 percent share to each State because they viewed that "even the smaller States may have to incur certain minimum costs in establishing the framework of governmental machinery." We suggest continuing with the approach as adopted by earlier Commissions and as suggested above. We suggest that a weight of 20 percent may be assigned to area of a State.

Fiscal contribution- level of Gross State Domestic Product: Fiscal contribution has so far not been considered for interstate allocation of resources from divisible pool. Many States have suggested tax collections as an indicator to capture the contribution of a State to the national kitty of resources. We propose that fiscal contribution may be assigned a weight of 10 percent in interstate allocation of resources.

Fiscal capacity- Fiscal capacity has been the single most important criteria for inter se allocation of resources. There could be three possible options for measuring fiscal capacity, the per capita GSDP, the per capita consumption and poverty. The per capita Gross State Domestic Product (GSDP) has so far been used as a proxy for tax base and the relative distance used in determining the fiscal capacity of the State. Though it has been rightly observed that GSDP is an indicator of the domestic product and not of income or consumption and it is also not a "perfect correlate of fiscal capacity, of the alternatives we continue to support the per capita GSDP and propose a weight of 25 percent to per capita GSDP difference as has been the practice with earlier Commissions.

Revenue forgone: Fifteenth Finance Commission had allocated a weight of 10 percent to forest area for sustaining economy and as revenue forgone. These continue to be important parameters and we recommend continuation of retaining forests as part of revenue forgone by the State in supporting ecology. With worsening weather conditions and Air Quality Index reaching dangerous levels, forest cover should be incentivized. We, therefore, consider allocating a higher weight of 20 percent to be assigned to forests.

Performance has usually not been assigned any weight in interstate distribution. Earlier, however, there was no single proxy variable for assigning any weights to performance. We had tried with fiscal health, Tax/GSDP and improvements in tax/GSDP as the fiscal performance parameters. But the actual performance which is citizen centric and all-encompassing can now be visualized in terms of Sustainable Development Goals and composite score of the State. In view of this, we suggest SDGs to be taken as one of the criteria and overall SDG Index may be included in interstate distribution with Composite SDG rank and score as the parameter with a weight of 5 percent.

Grants to Local Bodies

Local bodies are important intermediaries between the citizens and the State not only that they are near to them but they understand their problems much better and citizens can articulate their aspiration more openly. The resource flow should therefore be augmented. We suggest that instead to a lump sum allocation with a normal annual increase, their allocation should be linked to the buoyant source. Like the SFC recommendations, we suggest that 5 percent of gross revenue should be earmarked to the local bodies as grants and 100 percent of these grants should not have any conditions attached. The criteria to be followed should be population (80 percent weight) and area (20 percent weight). We suggest that the weights assigned should follow the same principle as in horizontal interstate transfer with a minimum threshold of 2 percent because the cost disadvantage on account of density and elevation is same for a State and also the local bodies within the State. As proposed above, the entire amount of grant should be untied. However, Finance Commission may suggest a bouquet of incentives and penalties, which a State may consider for adoption. It may also consider setting a limit of grants that needs to be linked to such incentives.

Grants for Disaster Relief

Disaster management is public responsibility and the reconstruction and restoration that is required post disaster needs public funding. The resource flow should therefore be adequate and augmented. We suggest that instead to a lump sum allocation with a normal annual increase, their allocation should be linked to the buoyant source. We suggest that 1 percent of gross revenue should be earmarked to the disaster relief as grants. The criteria to be followed should be population (50 percent weight) and area (50 percent weight). We suggest that the weights assigned should follow the same principle as in horizontal interstate transfer with a minimum threshold of 2, because the cost disadvantage on account of density and elevation is same for a State and also the local bodies within the State. States should have little more freedom in declaring a disaster as State Disaster and list of items should have little more flexibility.

Economic Profile and GSDP Projection

Sikkim is economically one of the better off States of India, but the structure of its economy and employment are significantly different. While the manufacturing and power contribute to around 60 percent of Gross Value Added (GVA) of the State, agriculture & allied sector continues to be the mainstay of employment, absorbing nearly 46 percent of total work force. The contact intensive sectors of trade, transport and recreation is the second major contributor of absorbing workforce. This sector is heavily dependent on infrastructure and connectivity which have been significantly affected by the flash flood. Similarly, together with the proactive policies of the Government, availability of abundant power has facilitated manufacturing growth in the State. The flash floods have also created a sense of uncertainty among the tourists, which could delay the resurgence of livelihood opportunities and income levels of nearly 25 percent of population. The restoration and reconstruction phase, therefore, also needs to be imbedded with programmes and support for the intervening period to nearly 40-45 percent of population in agriculture, livestock and tourism related sectors.

The economy has had a robust growth post 2011-12 and has nearly recouped the downturn witnessed during the pandemic. The nominal GSDP growth during 2011-12 to 2023-24 has been 12.8 percent, nearly 2 percentage point higher than the national average of 10.8 percent. Growth in constant prices during this period averaged 6.9 percent. Since population growth has nearly moved below the replacement rate in terms of data from Registration, the nominal term per capita GSDP growth is 13 percent. During 2024-25, the State Budget has estimated it to cross Rs. 50,000 crore mark. Overall GSDP of the State had grown very fast relative to other States. While the share of Sikkim in the GSDP of the States has increased from 0.1 percent during 2000-01 to 0.2 percent in 2023-24, its per capita GSDP, which was near the national average has increased to more than three times the national average in 2023-24 and is currently the highest in the country.

The composition of workforce in Sikkim is somewhat different than the rest of the Country. Nearly 38 percent of workers in Sikkim (next only to Goa which has 56 percent of workers as wage earners) are wage earners or salaried people as against the national average of 21.5 percent. Another 55 percent of workers are self-employed and different sectors. Skill development and matching skill sets with the emerging demand, which is continuously evolving is the biggest challenge for Sikkim. A high proportion of persons are employed in Public Administration under one family one job norm. This has been both for stability and peace and ensuring livelihood opportunities of people during economic meltdown.

Until 2023-24, the electricity and utilities have been one of the most buoyant sectors recording a growth of 15.8 percent during 2011-12 to 2023-24. Further, its growth improved over last four years covering the covid and post covid years. Manufacturing sector, despite a significant presence of organised manufacturing, facilitated through the Industrial & Investment policy recorded a growth of 5.8 percent in most recent four years. However, in view of the massive disaster that struck Sikkim in October 2023, the electricity sector has come under severe strain. In view of this, the projection for GSDP growth from this sector has considerably moderated. Tertiary sector is a wide multi-disciplinary segment of population comprising trade, transport, professional services, banking & insurance and key social services of health, education and service delivery and monitoring mechanism through public administration. In view of this we expect a moderate growth in first three years of the award period of FC-XVI and increasing to 12 percent thereafter.

State Finances and Fiscal Forecasts

For sustained economic recovery and for ensuring better lives and livelihood opportunities, the State needs to explore all possible options for resource mobilization. While the transfer of resources from the Union in terms of the share of the State and grants are expected to remain buoyant given the growth prospects and revenue mobilization, the State needs to look at its own tax and non-tax revenue sources. In terms of the State's own tax resources, four taxes, viz., GST, Sales Tax, State Excise duties and Taxes on vehicles accounting for over 90 percent of total receipts. Of these taxes, State GST, though collected and retained by the State is nonetheless imposed collectively through GST council and only option is to improve the compliance. The non-tax revenue of the State consists primarily of general services (mainly police and public works) and economic services. Recovery of user charges from social services has nearly been stagnating at a little over one percent. Recovery in economic services at aggregate level is also close to 38 percent.

State has been somewhat fortunate in transfers by way of taxes and grants. Grants suffered in 2020-21, the first year of the Fifteenth Finance Commission, which was a standalone annual report in view of covid. There was a decline in tax transfers. From overall share of 72 percent in revenue receipt, the share of transfers declined to 65 percent. Assuming a normal revenue growth during this period, the share could notionally be expected have declined below 50 percent level. The recovery in transfers continued to get delayed in 2021-22. The pandemic and post pandemic recovery, therefore were largely be driven with static or even falling resources. Though the share of the State in tax transfers was retained by the Fifteenth Finance Commission at the level of Fourteenth Finance Commission, a decline and volatility in grants created revenue uncertainty.

During 2022-2025, Sikkim has maintained or likely to maintain a revenue surplus. A somewhat buoyant transfer has raised the revenue receipts and a continuous watch on expenditure had made it possible. A proper resource flow during 2019-2021 would have made it better for the State to manage its finances even better. Fiscal deficit as conventionally measured in terms of GSDP is likely to reach 5.4 percent of GSDP. However, in view of the long-term Central Government Loans which have 50 years tenure and are interest free could be considered as exclusion (these are not covered as part of deficit in terms of FRBM rules also). The Deficit would then fall 2.7 percent of GSDP.

Sikkim adopted a rule-based system of Fiscal Reforms and Budget Management (FRBM) in line with the recommendations of various Finance Commissions. The FRBM mandates the Government to adhere to deficit targets as also the public debt and other liabilities of the Government as per the FRBM adopted by the State. The ceiling of fiscal deficit and fiscal liabilities are fixed as percentage to the Gross State Domestic Product of Sikkim as finally released by the National Statistical Office. Further, all loans and borrowings of the State have necessarily to be approved by Ministry of Finance.

Fiscal forecast is required to be made under difficult conditions. During 2024-25 Budget, the State has not only rationalized the tax structure, it raised the rates under various taxes to optimum levels. With economic difficulties, the realization BE figures would be difficult. However, we have taken 2024-25 BE figures as base line figures and have projected revenue and expenditure. For the States' own tax and non-tax revenue, we have taken a buoyancy of less than 1. While overall revenue receipt is projected to grow at 12.1 percent, the buoyancy comes from a higher growth assumed for tax transfers and flow of grants. The Union revenue receipt is expected to remain buoyant both on account of base change and also buoyancy greater than one. Reference is also made of our suggestions with regard to divisible pool which are proposed to be all inclusive and cover Gross Revenue Receipt of the Union.

Revenue expenditure in most cases is assumed to grow at 10-14 percent depending on the observed growth during 2011-12 to 2024-25, but in areas of pension it has assumed to grow at 20 percent. In revenue expenditure, adjustment has also been made of the higher expenditure that would occur in 2025-26 and in later years as the newly appointed employees will move from consolidated pay to a normal scale. In economic and social services, usual pattern has been to follow the observed growth with some adjustments. The fiscal forecast results in a Revenue Deficit to be covered by a Revenue Deficit grant in a matching manner. Capital expenditure is projected to grow 10 percent, with an expectation that as in the previous year long term loans outside FRBM limits would be available for capital expenditure proposes. Overall snapshot of Fiscal projection is in Table 4.3.

State Specific Grants

While Sixteenth Finance Commission does not have any TOR per se to consider State Specific requests, following requests with a total request for Rs. 30,800 crore is proposed:

- **Mono Rail/Cable car network and Satellite Town (Rs 20,000 crore).**
- **Development of Agriculture (Rs 2000 crore).**
- **Constructing Mini secretariats in newly formed Districts and other Districts (Rs 4000 Crore).**
- **Maintenance Grants (Rs 360 crore annually for 5 years).**
- **Peace Bonus (Rs. 100 crore annually for 5 years).**
- **Maintaining Ecology & Carbon sequestered by forest cover (Rs 1000 crore**).
- **Grant for State University & Netaji Subhash Centre of Excellence (Rs. 1000 crore).**
- **Multi Model Chewa Bhanjyang Corridor (Rs. 500 crore).**
- **Additional resource mobilization as recommended by the State Finance Commission and as has earlier been considered by the State Government (consider for recommending to the Union).**

Sikkim, a landlocked country without any Rail and Air connectivity exclusively depends on NH 10. Apart from ensuring minimum standards in terms of durability, reliability and riding comforts, movement on this road needs to be disruption free. Construction of an alternate highway to Sikkim along with Indo Bhutan border in West Bengal which has already been approved by Government of India should begin immediately and should be completed in time bound manner. Two concerns are, however, more immediate. First, disruptions caused by blockade and agitations needs to be handled by the Union Government through an appropriate institutional mechanism. The institutional mechanism should also consider compensation to Sikkim for economic losses which it suffers because of the temporary dislocations. Second, NH 10 should remain perfectly navigable at all times to save Sikkim from cost upsurge, economic losses and citizen discomfort.

1. Introduction & Terms of Reference

There has been an asymmetry in assignment of resources and functions at the level of the Union and the States, which has been well recognised by the Constitution. It has therefore, proposed a transfer mechanism of resources from the Union to the States. This mandatory transfer occurs through a well thought-out institutional mechanism of Finance Commission constituted every five years to determine the divisible pool for distribution of resources from the Union to the States and interstate allocation from this divisible pool between States. The Award of Finance Commission, though advisory has been considered and approved as a mandatory award. Fifteenth Finance Commission gave an award for a period of six years, first year of 2019-20 being a covid period with resource fluctuations as an independent resource dispensations and five years of 2020-21 to 2025-26 as normal period. The Sixteenth Finance Commission would give their recommendation for a five-year period from 2026-27 to 2030-31.

The Finance Commission in India is a constitutional body established under Article 280 of the Indian Constitution. Its primary function is to recommend the distribution of financial resources between the central government and the state governments. The Fifteenth Finance Commission was constituted on 27th November, 2017. It made recommendations covering the period of six years commencing on 1st April, 2020 through its Interim and Final Reports. The recommendations of the Fifteenth Finance Commission are valid up to the financial year 2025-26. The Sixteenth Finance Commission was constituted on 31st December 2023, holds the critical responsibility of recommending the formula for revenue distribution between the Centre and the States for the upcoming five-year period starting from April 1, 2026. The core terms of reference of the Commission are:

- Division of Tax Proceeds: Recommending the distribution of taxes between the Union Government and the States under Chapter I, Part XII of the Constitution. This includes the allocation of shares among the States from these tax proceeds.
- Principles for Grants-in-Aid: Establishing the principles governing grants-in-aid to the States from the Government of India. This encompasses determining the amounts to be provided to the States as grants-in-aid, specifically under Article 275 of the Constitution, for purposes beyond those outlined in the provisos to clause (1) of that article.
- Enhancing State Funds for Local Bodies: Identifying measures to enhance the Consolidated Fund of a State. This is aimed at supplementing the resources available to Panchayats and Municipalities within the State, based on recommendations made by the State's own Finance Commission.
- Evaluation of Disaster Management Financing: The Commission may review the current financing structures related to Disaster Management initiatives. This involves examining the funds created under the Disaster Management Act, 2005, and presenting suitable recommendations for improvements or alterations.

1.2 In case of earlier Finance Commissions, quite a number of other clauses were included in the ToR, reflecting the provision under clause (d) of Article 280 of the Constitution which refers to *'any other matter… in the interests of sound finance'*. No specific matter has been referred to the 16thFinance Commission under this clause. However, since this phrase is part of the Constitution, it should be open to the Commission to consider any matter relating to central and state finances in the interest of sound finance. The ToR of the 16thFinance Commission can be considered as a fresh and welcome departure from the earlier practice of giving a detailed set of considerations. This implies that the Commission is free to determine scope of its work, approach and methodology.

1.3 The subject of determination of grants and tax devolution in India requires consideration of three types of imbalances namely, vertical, horizontal, and fiscal. **Fiscal imbalance** deals with the borrowing undertaken by central and state governments to fill up part of the resource gap, which is not met by the availability of resources after transfers from the Union. While the constitutional clauses pertaining to the Finance Commission do not make a direct reference to fiscal imbalance, these are quite critical. In fact, the capacity to spend of central and individual state governments depends not only on fiscal transfers but also on the level of fiscal deficit or incremental borrowing. 16th Finance Commission has to decide about transfers, taking into consideration not only the status of vertical and horizontal imbalances, but also the status of fiscal deficit and debt relative to GDP/GSDP.

Fiscal Situation of the States' and the Union- A Snap Shot

1.4 Indian federalism is both dynamic and unique as it attempts to have a creative balance between functions at different tiers of Governments and resource transfers to the lower levels as revenue assignments are based on efficiency in raising them. It is based on the belief that the multi-level governments can augment the pursuit of efficiency and equity in the allocation of resources through cooperation, competition and collaboration among central and sub-national governments where constitutionally mandated rules define their interactions. It upfront recognizes the asymmetry in allocation of resources and expenditure responsibilities and conceives of a fiscal transfer mechanism to ensure that each tier of Government has discretions as an elected body and incentives to meet public aspirations and their welfare through decentralized arrangement.

Table 1.1 Aggregate State Finances (Rs in Lakh Crore)

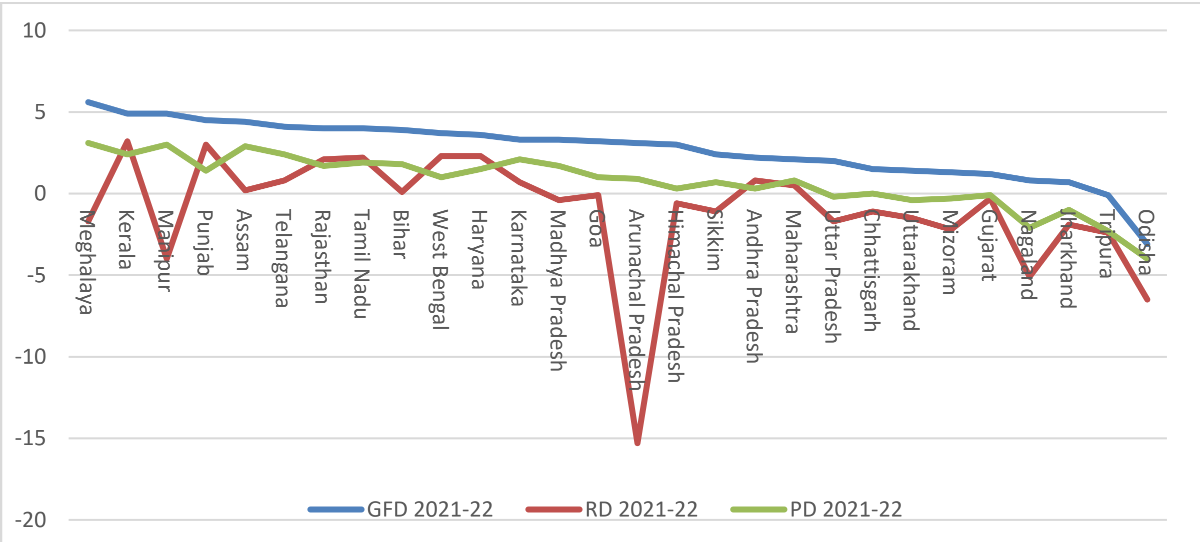
Item	2018-19	2019-20	2020-21	2021-22	2022-23 (RE)	2023-24 (BE)
Revenue Receipts (a+b)	26.2	26.7	25.87	32.25	39.12	43.09
a. States' Own Revenue	14.34	14.85	13.48	17.19	20.86	24.79
b. Central Transfers	11.87	11.85	12.39	15.06	18.26	18.3
Revenue Expenditure	26.38	27.92	29.58	33.27	40.38	43.44
Capital Expenditure	4.87	4.60	4.57	5.75	8.12	9.57
Development Expenditure	21.01	21.63	22.64	25.99	33.22	36.02
Gross Fiscal Deficit	4.63	5.25	8.05	6.55	9.24	9.48
Revenue Deficit	0.18	1.21	3.71	1.02	1.25	0.35
As percent to GDP						
Revenue Receipt	13.9	13.3	13	13.7	14.4	14.3
States' Own Revenue	7.6	7.4	6.8	7.3	7.7	8.2
Transfers from Union	6.3	5.9	6.2	6.4	6.7	6.1
Revenue Expenditure	14.0	13.9	14.9	14.2	14.8	14.4

Capital Expenditure	2.6	2.3	2.3	2.4	3	3.2
Development Expenditure	11.1	10.8	11.4	11.1	12.2	11.9
Gross Fiscal Deficit	2.4	2.6	4.1	2.8	3.4	3.1
Revenue Deficit	0.1	0.6	1.9	0.4	0.5	0.1

Source: RBI- State Finances

1.5 India is more of a cooperative Union of States rather than a dual polity. The asymmetry envisaged in the Constitution, however, has not remained stable and static. It is observed that revenue receipt of the States has generally been range bound. Revenue receipt as percent to GSDP declined to 13 percent during 2019-20, the pandemic year onslaught with a highest fiscal deficit of 1.9 percent of GDP. There has afterwards been a systemic recovery, largely supported by the transfers from Centre, not only in terms of revenue, but also by way of loans of long-term nature, interest free with a 50-year tenure (Table 1.1). Interstate differences in different kinds of deficit have significantly varied across the State in 2021-22, with a fiscal surplus for Odisha to a fiscal deficit in excess of 5 percent of GSDP for Meghalaya, Kerala and Manipur. Similarly, many States enjoyed revenue surplus, included among them were Odisha, Uttar Pradesh, Jharkhand, Gujarat, Arunachal Pradesh, Madhya Pradesh, Chhattisgarh, Uttarakhand, Nagaland, Tripura, Manipur, Himachal Pradesh, Meghalaya, Mizoram, Sikkim and Goa. But most of bigger States suffered revenue deficit (Fig 1.1).

Fig 1.1: Revenue, Fiscal and Primary Deficit as percent to GDP

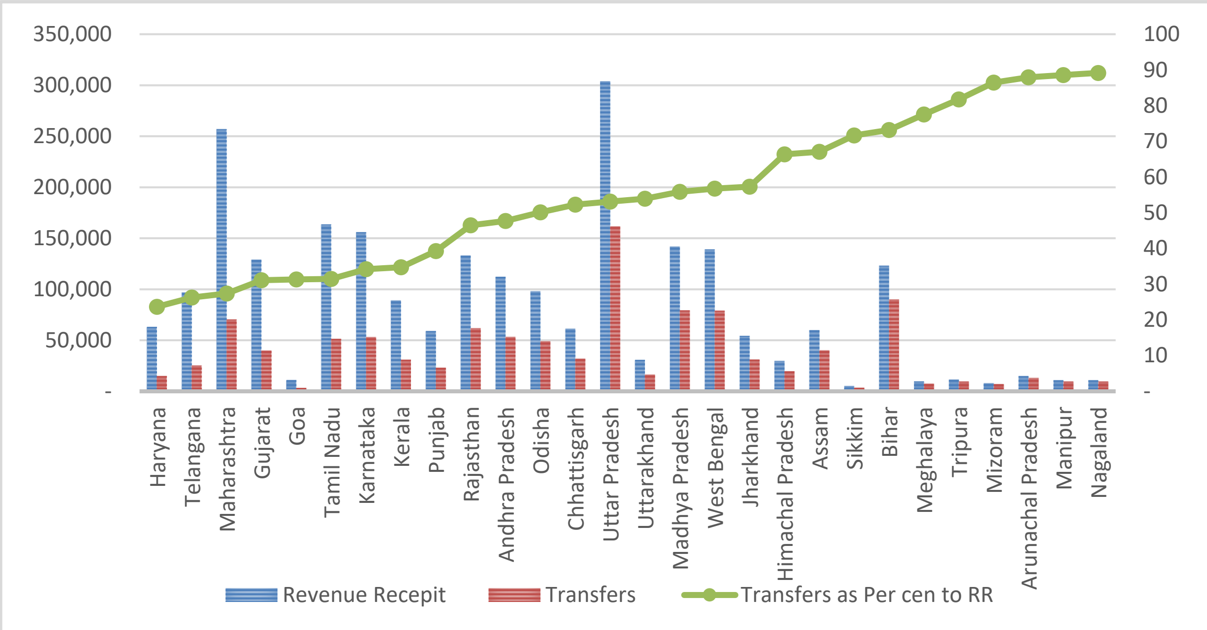


Source: RBI- State Finances

1.6 Transfers played a significant role in revenue receipts of the States. Fig 1.2 and 1.3 below clearly indicate that during 2015-22 (the award period of the Fourteenth and Fifteenth Finance Commission which has raised the share of the States to above 40 percent), transfers reached in case of some States to a level of near 90 percent. It ranged from a lowest of 24 percent for Haryana to over 66 percent for all NE States, Bihar and Himachal Pradesh. The wide range of transfers as percent to Revenue Receipt has largely been due to the criteria adopted for interstate distribution of divisible pool.

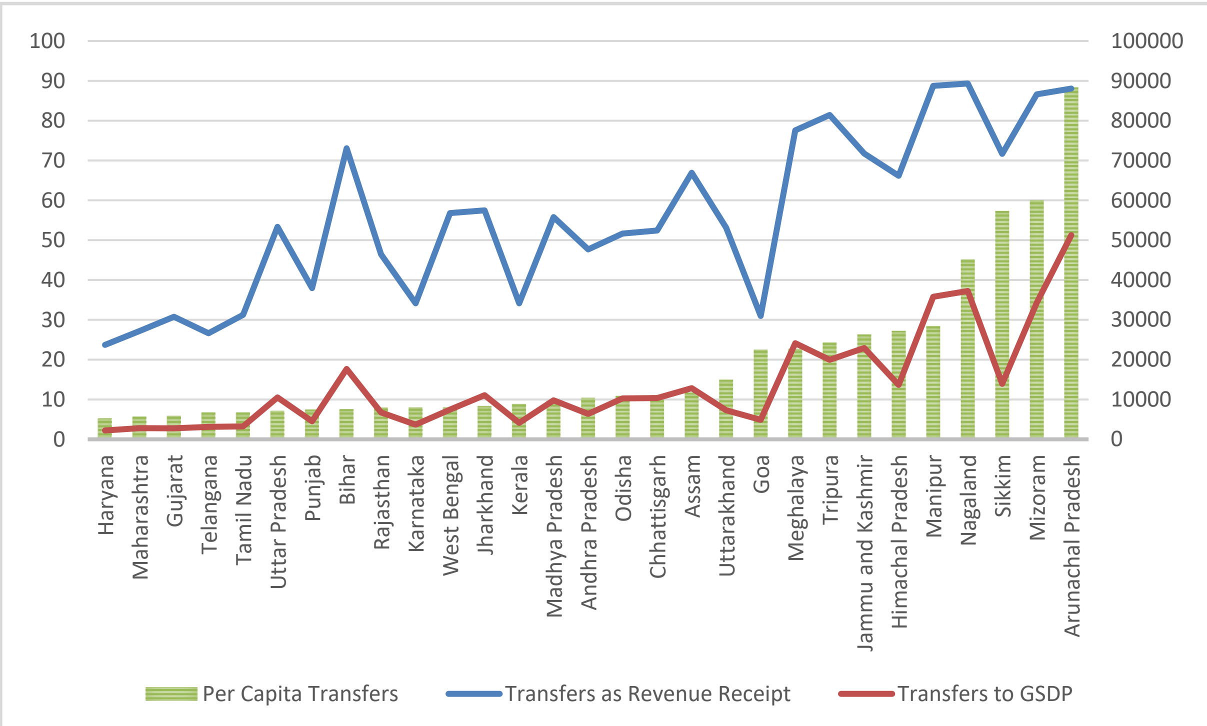
1.7 Figure 1.3 captures the transfers per capita and relative to GSDP. It is observed that per capita transfers to a very large extent are range bound, except for some NE States. The range though appears very wide from a low of Rs. 5280 for Haryana to Rs. 88,293 for Arunachal Pradesh, but for major States it is under Rs. 15,000. Yet the per capita range is very wide. This again is because of a minimum value and weightage allocated to smaller States in terms of area. Similarly, as percent to GSDP, the range is wide enough from a low of 2.2 percent for Haryana to over 50 percent for Arunachal Pradesh.

Fig 1.2: Share of Transfers (Taxes & Grants) in Revenue Receipt of the States



Source: RBI- State Finances

Fig 1.3: Per Capita Transfers (Rs) and Transfers as (%) to GSDP & Revenue Receipt



Source: RBI- State Finances

1.8 A snapshot of Union Government finances and the fiscal cooperation could be seen from Table 1.2:

Table 1.2: Union Government Finances-A Snapshot (as percent to GDP)

Item	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Gross Tax Revenue	11.0	10.0	10.2	11.5	11.3	11.7	11.8
State Share	**4.0**	**3.2**	**2.8**	**3.8**	**3.5**	**3.8**	**3.8**
Net Tax to Union	7.0	6.7	7.2	7.6	7.8	7.9	7.9
Non-Tax Revenue	1.2	1.6	1.0	1.5	1.1	1.4	1.7
Gross Revenue	12.3	11.6	11.3	13.0	12.4	13.1	13.4
Revenue Expenditure	10.6	11.7	15.5	13.6	12.8	11.8	11.4
Capital Outlay	1.6	1.7	2.1	2.5	2.7	3.2	3.4
Revenue Deficit	2.4	3.3	7.3	4.4	4.0	2.6	1.8
Fiscal Deficit	3.4	4.6	9.2	6.7	6.4	5.6	4.9
Fiscal Liabilities	48.1	50.8	60.8	57.4	56.5	57.1	56.3
Transfers to States	6.3	5.6	5.8	7.0	6.7	6.9	7.0

Source: Union Budgets

1.9 The Finances of the Union Government considerably deteriorated during pandemic with revenue deficit ballooning to 7.3 percent. There has been consistent recovery led both by a revenue buoyancy and expenditure management. As indicated by the Fifteenth Finance Commission, Commissions have allowed for some flexibility in the previously set debt and borrowing ceilings, but we have argued that such flexibility must be strictly bound and additional borrowings be invested with a clear eye to future growth. We have proposed a system of grants that helps to support and motivate such investments, while meeting the needs of States in the present crisis. Commissions have laid out the core pillars for a fiscal architecture that can better harness India's resources, raise the quality of public spending and deliver broad-based, resilient growth. Their act has been of balancing nature and in doing so, Commissions have recognized that, "through the combination of the Finance Commission's recommended transfers and the Union's voluntary transfers to various schemes the States are already receiving about half of the gross-revenue receipts."

Fiscal Reforms & Budget Management

1.10 During the current decade there have been many attempts at fiscal consolidation. After a roadmap suggested by the Twelfth Finance Commission, Kelkar Committee suggested a revised road map of fiscal consolidation. In January, 2017, a FRBM Review Committee headed by Shri NK Singh submitted a report-"Responsible Growth: A Debt and Fiscal Framework for 21st Century India". The Committee suggested that a rule based fiscal policy by limiting government debt, fiscal deficit and revenue deficits to defined targets are desirable for fiscal consolidation in India. The FRBM Review Committee's philosophy suggests that in a country like India, where budgets are framed by accommodating populist pressures, activist or discretionary fiscal policy with high fiscal deficit has limitations. Fiscal policies, therefore, need to be embedded in caution than exuberance. Though it recognised the need for stimulus, but suggested well defined escape clause. Main recommendations Committee have been the following:

1. Public debt to GDP ratio should be considered as a medium-term anchor for fiscal policy in India. The combined debt-to-GDP ratio of the centre and states should be brought down to 60 percent by 2023 (comprising of 40 percent for the Centre and 20 percent for states).

2. Fiscal deficit as the operating target: The Committee advocated fiscal deficit as the operating target to bring down public debt. For fiscal consolidation, the Centre should reduce its fiscal deficit from the current 3.5 percent (2017) to 2.5 percent by 2023.

3. Revenue deficit target: The Committee advised government to follow the golden rule of not to borrow for current expenditure.

4. Escape Clause to accommodate counter cyclical issues: The committee advocated counter-cyclical covers in fiscal policy in the form of 'escape clauses'. The Committee set 0.5 percent as escape clause for fiscal deficit target.

5. Fiscal consolidation responsibility for states: The Committee observed that state government's fiscal position is important after greater resource transfer to them and they should be on board in fiscal consolidation.

6. Congruence of Fiscal and Monetary Policy: The FRBM Review Committee observed that both monetary and fiscal policies must ensure growth and macroeconomic stability in a complementary manner. For this, the Inflation Targeting (IT) regime and Fiscal Rules (FRs) have to interact with each other.

The Fifteenth Finance Commission further spelt out the targets for fiscal consolidation as indicated in Table 1.3.

Table 1.3: Fiscal Consolidation Targets for the Union & States (percent of GDP/GSDP)

Fiscal Parameters	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Revenue deficit-Union	5.9	4.9	4.5	3.9	3.3	2.8
Revenue deficit-States	-0.1	-0.4	-0.8	-1.1	-1.6	-2.4
Revenue deficit-combined	5.8	4.5	3.7	2.8	1.7	0.4
Fiscal deficit-Union	7.4	6	5.5	5	4.5	4
Fiscal deficit-States	4.2	3.3	3.3	2.8	2.8	2.8
Fiscal deficit-combined	11.6	9.3	8.8	7.8	7.3	6.8
Liabilities-Union	62.9	61	61	60.1	58.6	56.6
Liabilities-States	31.1	30.7	31.3	31.1	30.9	30.5
Net for Inter Government Debt	4.2	3.4	2.7	2.1	1.7	1.4
Liabilities-combined	89.8	88.3	89.6	89.1	87.8	85.7

Source: Report of FC-FV

Welfarism: A new Policy Paradigm

1.11 There is usually a consensus that the primary role of government is to provide the legal framework within which all economic transactions occur. However, over time role of Government has widened to cover: the production of goods and services; the regulation and subsidization of private production; the purchase of goods and services, from missiles to the services of street cleaners; the redistribution of income, that is, payments, such as unemployment benefits, to particular groups of individuals that enable them to spend more than they could otherwise; and direct distribution of goods and services produced by itself or others through a regulated pricing mechanism. These are conveniently grouped as social and economic services of the Government, with or without full recovery of the cost of products and services delivered terms as welfarism.

Table 1.4: User Charges and Revenue forgone for Economic & Social Services (Rs crore)

Item	2001-06	2006-11	2011-16	2016-22	CAGR	CAGR
	Average of Years				2001-12	2011-22
Population (Millions)	1,073	1,154	1,251	1,334	1.61	1.16
Social Services	3,367	8,692	22,120	27,837	17.56	10.01
Economic Services	17,594	34,761	61,140	104,181	15.35	11.57
Social Services	123,961	261,570	566,875	1,062,855	14.74	12.01
Economic Services	79,322	152,524	328,337	612,787	13.06	12.46
Per Capital Expenditure						
On SS (Rupees)	1,156	2,267	4,531	7,966	12.92	10.73
on ES (Rupees)	740	1,322	2,624	4,593	11.27	11.17
Cost Recovery (percent)						
Social Services	2.72	3.32	3.90	2.62	-	-
Economic Services	22.18	22.79	18.62	17.00	-	-

Source: Reserve Bank of India- State Budgets.

1.12 There are some clear inferences from the above table. There has been clear deceleration in growth in the current decade 2011-2022 across nearly all parameters, viz., growth in receipts, rate of growth of revenue from social & economic services and cost recovery. If we take full twenty-year period post 2000, cost recovery for social services has averaged 2.2 percent and cost recovery for economic services at around 20 percent has nearly persisted. Combined cost recovery for both social and economic services has been below 10 percent during this period. It should, however, be understood that not all expenditure on social and economic services could have user charges. These are commitments. The expenditure on social security and pension, expenditure on nutrition and Child Development Programmes, expenditure on National Food Security, Rural Development and Employment guarantees, agricultural support in the form of Samman Nidhi, procurement support, etc do not have any user charges. Even in education and health the possibility is limited. Mines, irrigation, power, forests produce and to an extent roads could be considered for some user charges. State to State variations arise because of dominance or otherwise of these services and resources.

What additionally Sixteenth Finance Commission should consider

1.13 Notwithstanding the fact that the terms of reference of Sixteenth Finance Commission do not include other than the basic issues, but primary mandate of a Commission is to recommend with a view to ensure fiscal sustainability at the level of the Union and the States'. Fiscal sustainability is an all-encompassing word which combines with itself the growth of economy and its sectors, resource mobilisation, convergence of per capita expenditure in critical services and a long-term vision of growth and prosperity. It needs to consider, while devising a formula of sharing proceeds, State specific needs. Indian States are diverse in nature with each having its strengths and opportunities. It is necessary that these are allowed their full play.

2. State of Economy of Sikkim

Sikkim is one of the smallest states in terms of area and population. However, the structure of economy of Sikkim is more akin to western developed countries with secondary and tertiary sector being the dominant sector accounting for over 90 percent of the GSDP of the State. Yet, in terms of employment, notwithstanding the promising sectors of public administration, trade and tourism, agriculture employs nearly 45 percent of work force. The dichotomy of structure of economy and workers participation is somewhat perplexing. Sikkim has done well in providing civic amenities to its people and has consistently been a front runner in performance of Sustainable Development Goals, the new development paradigm. It has an overall rank of sixth with a leading position in NE States.

Sikkim is the second smallest state of the Indian Union and located in the northeastern part of the country in the eastern Himalaya. Sikkim is bordered by the Tibet Autonomous Region of China to the north and northeast, by Bhutan to the southeast, by the Indian state of West Bengal to the south, and by Nepal to the west. It has a total area of 7,096 sq. kms with a population of 610,577 as per the 2011 Census, which makes it the least populous state in the country. The State is also known for its rich biodiversity including its Alpine and Sub Tropical Climatic zones. Mount Kanchenjunga, the highest peak of India and third highest peak in the world is located in the State and is worshipped as its guardian deity. Nestled in the Himalayan Mountains, the State is characterized by mountainous terrain with fragile ecology and elevations ranging from 280 mts to 8586 mts.

2.2 The State is endowed with rich natural resources and biodiversity but is also ecologically sensitive and prone to natural hazards including earthquakes as it lies in seismic zone IV. The rock types consist of phyllites and schists which is highly susceptible to weathering and erosion. Heavy rainfall and extensive soil erosion, with loss of soil nutrients through leaching, results in frequent landslides. Landslides are also triggered due to the frequent seismic activity in the State leading to extensive disruption of connectivity in the already landlocked State and damages to property. The geo-morphological setting of Sikkim in particular is complex. Extensive glacial deposits and glacial lakes within the drainage basins and catchment areas of Lachen and Lachung rivers pose constant threat of high hazards to the areas at lower levels of the region, which also resulted in a catastrophical damage during October 2023. The topography of the State has not only a significant bearing on the strategy of reconstruction and restoration, it also is indicative of the policy paradigm that needs to be pursued for citizen centric interventions.

Economic Profile

2.3 Sikkim is economically one of the better off States of India, but the structure of its economy and employment are significantly different. While the manufacturing and power contribute to around 60 percent of Gross Value Added (GVA) of the State, agriculture & allied sector continues to be the mainstay of employment, absorbing nearly 46 percent of total work force. The contact intensive sectors of trade, transport and recreation is the second major contributor of absorbing workforce. This sector is heavily dependent on infrastructure and connectivity which have been significantly affected by the recent flash flood. Similarly, together with the proactive policies of the Government, availability of abundant power has facilitated manufacturing growth in the State. The flash floods have also created a sense of uncertainty among the tourists, which could delay the resurgence of livelihood opportunities and income levels of nearly 25 percent of population. The restoration and reconstruction phase, therefore, also needs to be imbedded with programmes and support for the intervening period to nearly 40-45 percent of population in agriculture, livestock and tourism related sectors.

2.4 Broad structure of the economy of Sikkim is indicated in Tables 2.1 and 2.2 below. These tables clearly reveal that it is the secondary and tertiary sectors dominate the economy. The secondary sector comprising partly the organised sector industry, which came in big way to take advantages of the entrepreneur friendly policies of the State and the benefits offered by the Industrial policy. The Electricity sector, particularly the Hydro power sector, was due to the topography of the State and power potential. The share of secondary and tertiary sector improved from 92 percent in 2011-12 (at constant prices) to 94 percent in 2023-24.

Table 2.1: GSDP at current prices (Rs in crore)

Item	2011-12	2016-17	2020-21	2021-22	2022-23	2023-24	CAGR
Agriculture	901.4	1904.4	3022.7	3255.3	3492.5	3787.7	12.7
Mining	8.0	16.8	10.8	15.0	21.5	23.2	9.3
Manufacturing	4306.2	8675.6	12644.6	13373.0	14132.4	15387.4	11.2
Electricity	1866.2	2561.3	5980.4	7472.1	8779.2	10834.2	15.8
Construction	671.0	900.1	1247.0	1606.1	2065.9	2399.5	11.2
Trade & Hotels	314.5	926.3	1565.3	2190.9	3005.5	3648.5	22.7
Transport & storage	283.7	564.9	577.4	787.4	892.9	988.9	11.0
Financial services	165.2	260.9	457.5	400.2	541.6	626.2	11.7
Real estate & professionals	583.9	902.6	1060.0	1205.7	1379.0	1572.8	8.6
Public administration	740.3	1195.7	2210.2	2394.9	2696.4	3160.5	12.9
Other services	1051.8	1687.6	2824.2	3118.2	3513.1	4034.0	11.9
TOTAL GSVA	10892.1	19596.2	31600.2	35818.8	40519.9	46462.9	12.8
GSDP	11165.1	20687.2	33017.8	37649.6	42677.5	48936.9	13.1
Population ('00)	6140.0	6470.0	6730.0	6800.0	6860.0	6920.0	1.0
Per Capita GSDP (Rs.)	181842	319740	490607	553671	622120	707181	12.0

Source: MOSPI and Directorate of Economics & Statistics

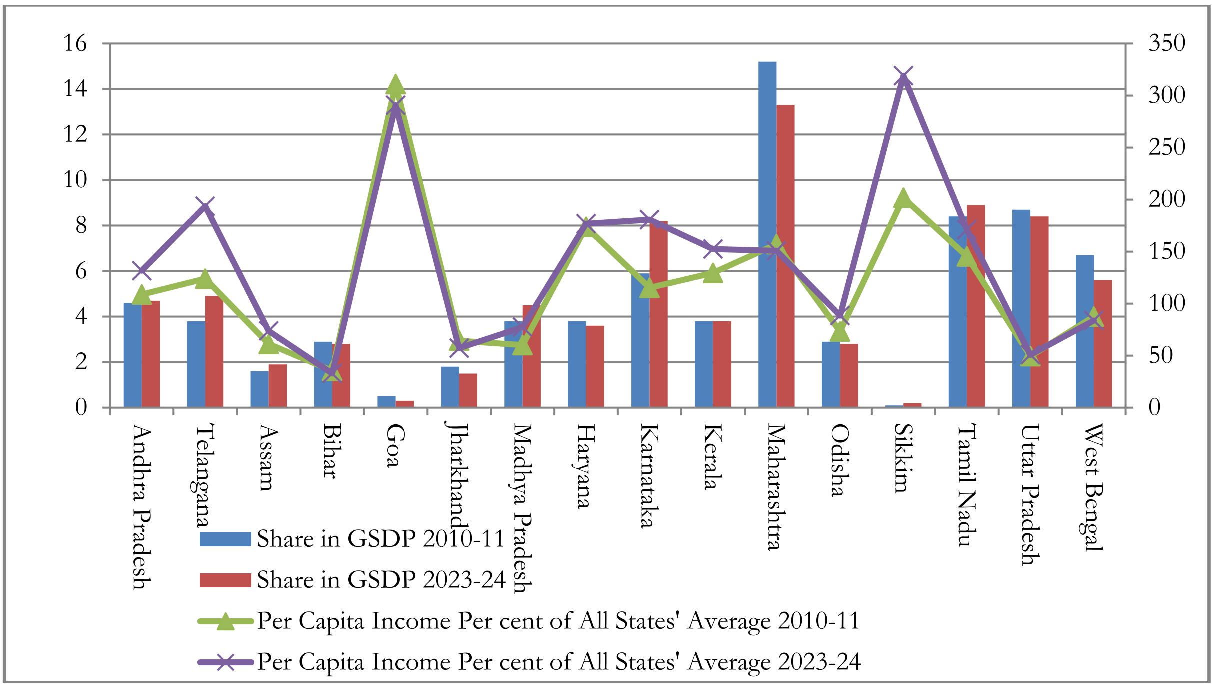
Table 2.2: GSDP at Constant 2011-12 prices (Rs in crore)

Item	2011-12	2016-17	2020-21	2021-22	2022-23	2023-24	CAGR
Primary	909	1135	1381	1406	1417	1448	4
Secondary	6843	9263	11673	13047	13991	15207	6.9
Tertiary	3139	4187	5664	5875	6555	7177	7.1
GSVA	10892	14585	18717	20328	21963	23833	6.7
GSDP	11165	15397	19557	21240	22948	24902	6.9
Population 00	6140	6470	6730	6800	6860	6920	1.0
Per Capita Income (Rs.)	181842	237979	290594	312357	334518	359860	5.9
Non primary sector (%)	92	92	93	93	94	94	-

Source: MOSPI and Directorate of Economics & Statistics

2.5 The economy has had a robust growth post 2011-12 and has nearly recouped the downturn witnessed during the pandemic. The nominal GSDP growth during 2011-12 to 2023-24 has been 12.8 percent, nearly 2 percentage point higher than the national average of 10.8 percent. Growth in constant prices during this period averaged 6.9 percent. Since population growth has nearly moved below the replacement rate in terms of data from Registration, the nominal term per capita GSDP growth is 13 percent. During 2024-25, the State Budget has estimated it to cross Rs. 50,000 crore mark. Overall GSDP of the State had grown very fast relative to other States. While the share of Sikkim in the GSDP of the States has increased from 0.1 percent during 2000-01 to 0.2 percent in 2023-24, its per capita GSDP, which was near the national average has increased to 319 percent of national average in 2023-24 and is currently the highest in the country (Fig 2.1)

Fig 2.1: Share of GSDP (percent) and per capita GSDP (percent all States' average)



Source: Economic Advisory Council of PM, Working Paper Series- S Sanyal & A Arora

2.6 The structure of economy has significant intervention variations across the States particularly in relation to the national level pan India interventions. Further as it is observed in the section on employment, the dichotomy of structure of economy and workforce participation is indeed perplexing. The structure and its work force participation are on two extremes and policy interventions are like walking on razor edge. Per capita income of the State is one of highest, but that is because of income originating in the State and not necessarily the income getting absorbed. The own tax/GSDP ratio, therefore, tend to remain low and high income is not fully reflected in the levels of living of the people.

2.7 Private manufacturing investment in Sikkim was facilitated by the North East Industrial and Investment Policy (NEIIP), which has been in operation until March 2022. The incentives that were provided in the scheme compensated to an extent the higher cost of operation of industries because of remote location of the State. First comprehensive intervention for development of manufacturing in North East was the introduction of the North East Industrial and Investment Promotion Policy (NEIIPP) – 2007. The scheme was valid for a period of 10 years from the date of commencement of production to the units' setup, between April 2007 to March 2017, and offered a variety of tax incentives. Thankful to NEIIPP 2007, and the incentives provided under it, Sikkim attracted major manufacturing units. It is estimated that the State attracted an investment of over $400 million from 22 major pharma companies during the later phase of the policy. The State thus emerged as a major pharma hub in the North Eastern region.

2.8 Government of Sikkim fully recognizes the need for having a healthy and investor friendly policy regime. Department of Commerce effectively escorts each prospective investor and facilitates fructification on investment in best possible manner. This escort mechanism effectively redresses the investor concerns. Sikkim now has on line availability of private lands for investors in industry and services sectors to make the land allocation process hassle free. The State has already announced the constitution of an Ease of Doing Business Committee hosted by the Department of Commerce and Industries to identify the investor concerns and the mechanism to resolve these concerns.

Achievements of Sikkim

2.9 Last four years have been the most challenging and difficult years for the Government of Sikkim. Its entire resources were more or less earmarked to safeguard the lives and livelihood opportunities of the people affected during prolonged pandemic, lasting for nearly two years and later to meet the disaster that struck in October, 2023. However, despite of this external constraint, Sikkim was able to achieve a positive GDP growth of over 9 percent per annum during 2018-2022 in nominal terms and nearly 4 percent adjusted for inflation. The contact intensive sector of hotels and restaurants suffered a decline with inflation adjusted growth being a negative 3.2 percent. Manufacturing, the most significant sector of our GDP also recorded a moderate growth which at 1 percent was barely positive. Post pandemic recovery has, however, been swift with an inflation adjusted GDP growth of 8.6 percent in 2021-22 compared a contraction in the pandemic year of 2020-21.

2.10 The Government of Sikkim has considered five important areas for accelerating growth of the economy. These relate to improving employability of youth in Sikkim; developing Sikkim as a Healthcare and Wellness Hub; innovative practices in agriculture & food processing; development of tourism and MSME sectors and development of urban infrastructure. Sikkim has become a pharmaceutical manufacturing hub with 14 major companies in the State. Along with manufacturing, there is a potential to develop world-class healthcare and holistic wellness infrastructure. It intends to develop forward and backward linkages to benefit industry, trade, tourism and health infrastructure. State government is focusing on rejuvenating rural economies as well through farm covering both traditional and commercial crops and non-farm activities of manufacturing and services.

2.11 The Government of Sikkim is already pioneering this effort by supporting organic farming in the State. Sikkim has emerged as the first fully organic farming State in the country with highest organic integrity. Sikkim has realized that the key constraints for our farmers have been the phenomenon of digital gap; adoption of better technology in production, processing and storage; and comprehensive market connection. State's joint venture with IFFCO is already in the process of setting up an Integrated Processing Facility in the State for processing of ginger, turmeric, large cardamom and buckwheat. The State Government is considering establishment of the Sikkim Organic Agriculture University at Mendo Gaon, Soreng District to provide instruction, training and research in specialized fields of Agriculture to the youth at their locations.

Importance of Tourism for Sikkim

2.12 Tourism is the lifeline of Sikkim. It provides livelihood opportunities to nearly 18 percent of population, next only to agriculture. In 2022-23, Sikkim is reported to have tourist footfall of nearly 2 million persons, three times the population of Sikkim. Compared to about 0.7 million tourists in 2015, their numbers have more than doubled. While decline in tourist footfall was observed during the pandemic years of 2020 and 2021, tourism has bounced back. Notwithstanding a setback due to natural disaster in October 2023 on account of flash floods, we expected tourism to witness only a temporary setback and bounce back to the States' potential. However, the tourism is still hampered due to bad road condition and it may take couple of years to return to its initial position. It has over the years attempted to build a specific Brand Image of Sikkim as an organic and cleanest State of India.

2.13 The tourism sector in Sikkim has seen an exciting transformation in recent years, revealing a colorful tapestry of unique experiences and possibilities for tourists. The industry is being further driven to new heights by cutting-edge technology, ecological practices, and the resurrection of lost heritage. Glaciers, natural beauty and religious mysticism are synonymous with Sikkim and Sikkimese culture. Natural ecological reserves, rich culture and unspoilt beautiful landscape are the potential resources for Sikkim. Sikkim is frontrunner in protection and conservation of its natural resources, forests, environment and wild life. Sikkim, just covering 0.2 percent of the geographic area of the country, has about 26 percent of total floral diversity of the country. With nearly one third of its geographic area covered under Wildlife Protection Area Network, with seven Wildlife Sanctuaries and one National Park, Sikkim has country's highest State wise percentage of protected area. Khangchendzonga National Park covering 1784 sq. km (25 percent geographic area of the State) is the India's largest UNESCO designated world heritage site on mixed criteria of nature and culture.

Sustaining Ecology

2.14 Government of Sikkim has adopted a dual strategy comprising conserving protected areas by collaborating with local communities and by improving the livelihood base of habitants through an appropriate land-use with a judicious mix of technology and incentives. Sikkim was adjudged best small State for improvement in environment in 2022 and a destination worth exploring. It is not only a zero-carbon emission location, but actually a net absorber of carbon emitted elsewhere. However, Sikkim needs to develop other tourist spots and new tourism agenda so that tourists can have a longer stay and both budget tourists and others find options for leisure and regeneration.

Employment & Skill Development

2.15 Employment growth, during this period was, however, a shining example. As per the Periodic Labour Force Survey Report of the Ministry of Statistics & Programme Implementation, amongst the States, Sikkim had the lowest unemployment figure of 1.7 percent as against the national average of 4.1 percent. During the decade ending 2021-22, nearly 72 thousand persons joined the labour force afresh and 69 thousand of these were gainfully employed. The unemployment rate on the basis of incremental job seekers was 4.3 percent as against the national average of over 14 percent. This shows that the initiatives of the Government of providing gainful employment opportunities during these critical times were generally appropriate and successful.

2.16 The sectoral employment as in Table 2.3, based on PLFS 2022-23, clearly indicates that manufacturing and electricity sector employ just fewer than 6 percent of work force. Even including construction within the secondary sector, the share moves up to just 15 percent. Agriculture, notwithstanding its share in output to be under 6 percent provided jobs to 46 percent of population of Sikkim. Education and health account for 6 percent of work force. Public administration and defense, transport and hotels have been the fastest moving sectors indicating an important role for Government. Public Administration and defense account for has not only emerged as the fastest growing segment, employ 12.8 percent of work force. Higher employment in public administration with interventions like one family one job has been necessary to keep the State peaceful and retain healthy growth. A large army of unemployed persons particularly after pandemic and disaster would have created instability and unrest in a border State.

Table 2.3: Sectoral Persons employed (000), Share and CAGR in percent

Item	2011-12			2022-23			2022-23	
	Male	Female	Total	Male	Female	Total	Share	CAGR
Agriculture	95.54	100.29	196.33	71.77	118.95	191.62	46.2	-0.2
Pub Admin &Defense	11.33	3.86	14.97	37.35	16.1	53.13	12.8	12.2
Construction	17.19	4.02	20.81	35.07	3.64	38.25	9.2	5.7
Trade	10.99	8.6	19.53	18.75	13.95	32.65	7.9	4.8
Transport	10.38	0.9	10.98	29.19		28.76	6.9	9.1
Education	13.99	4.28	17.97	11.34	6.63	17.93	4.3	0
Hotels	3.99	1.83	5.75	9.16	5.23	14.34	3.5	8.7
Manufacturing	9.03	2.45	11.3	10.95	3.33	14.17	3.4	2.1
Electricity	5.86	0.26	5.94	9.01	0.26	9.15	2.2	4
Health	1.25	1.24	2.49	0.83	6.26	7.19	1.7	10.1
Other Services	2.19	1.67	3.83	6.65	0.25	6.81	1.6	5.4
Others	8.4	0.69	8.87	2.74	1.32	4.01	1	-7
Total	190.13	130.5	319.19	242.86	175.93	418.03		2.5

Source: MOSPI- Periodic Labour Force Survey and Unemployment Survey

2.17 The composition of workforce in Sikkim is somewhat different than the rest of the Country. Nearly 38 percent of workers in Sikkim (next only to Goa which has 56 percent of workers as wage earners) are wage earners or salaried people as against the national average of 21.5 percent. Another 55 percent of workers are self-employed and different sectors. Skill development and matching skill sets with the emerging demand, which is continuously evolving is the biggest challenge for Sikkim. **Green Industries** and green jobs are the future and the sooner an economy adopts them, the better it is for sustainable growth and development. Further, the Fourth Industrial Revolution (4IR), which covers the emergence of technologies—ranging from machine learning, artificial intelligence, autonomous transportation and cloud computing—has yielded a sea change by permanently altering the relationship between man and machine. Sikkim has an ideal location for many of these industries. The Government of Sikkim's IT Department is setting up a State-of-the-art IT Park and National Institute of Electronics and Information Technology (NIELIT) at Pakyong, Sikkim to provide necessary support to these industries and creating skilled man power to fit into these sectors.

2.18 Skill Development is necessary for employment, productivity enhancement and income generation. In India, with an inverse relationship between education and employability and unemployment rate being in excess of 10 percent for diploma holders, graduates and post graduates, the missing link is the skill development. There are issues on both supply and demand side. On the supply side, Sikkim is failing to create enough job opportunities; and on the demand side, professionals entering the job market are lacking in skill sets. As per the India Skills report 2015, only 37.2% of surveyed people were found employable. According to Periodic Labour Force Survey (PLFS) more than 85 percent of those between 15 and 59 years had not received any vocational training.

2.19 The flagship **Pradhan Mantri Kaushal Vikas Yojana (PMKVY)** scheme was launched in 2015 to provide short-term training, skilling through ITIs and under the apprenticeship scheme. Since 2015, the government has trained over 10 million youth under this scheme. The **SANKALP programme** which focuses on the district-level skilling ecosystem and the **STRIVE** which aims to improve the performance of ITIs are other significant skilling interventions. Skill development is the most essential aspect of the development and the key instrument of availing demographic dividend. Government of Sikkim through a holistic eco-system such as "Niyukti Kendra" has conceived of a Single Window System for delivering Services for all the stake holders and Digitization and strengthening of internet connectivity for effective monitoring. Indira Gandhi Computer Saksharta Mission, an organization registered under the Indian Public Trust Act, of 1882 has proposed to establish Sikkim Global Technical University with objectives to provide Higher Education with skilled and entrepreneurial capabilities.

Thrust on MSMEs

2.20 An entrepreneur is a catalyst for economic development, a change agent with vision and creativity. Potential entrepreneurship development requires to be supported by a business ecosystem that is conducive to its emergence, easy finance, expertise, infrastructure, skills and a high level of motivation for change. An Integrated Business Development Model which integrates various government schemes provides integrated business development services, handholding of MSMEs starting from registration to promotion of their product/service in a competitive landscape and networking of entrepreneurs is what MSME look for. A survey conducted by the National Statistical Agency in 2015-16 revealed that there were 64 million micro, medium and small non-agricultural non construction enterprises in India employing 112 million persons. Average value added and fixed investment per establishment in 2015-16 was Rs. 2.3 lakhs and Rs. 1.8 lakhs, respectively. These were next only to agriculture providing livelihood support. In Sikkim, as per the 2015-16 Survey, there were 26,000 MSME units employing 45,000 persons.

Infrastructure and Investments

2.21 Infrastructure and investment are interlinked. However, while in infrastructure public investment has to take a lead, in manufacturing, housing and services it is primarily a domain of private sector. But fructification of private investment also pre supposes existence of normal infrastructure comprising both social sectors of education and health and economic infrastructure of power and connectivity. In infrastructure, PPP is now getting popular because of constraints on public resources as also better functionality of private operator. Legal and procedural issues for PPP have already been addressed to a considerable extent and alternative approaches of Build, Operate, Transfer in varying proportions is available. Sikkim is yet to benefit fully from PPP because of scale and cost consideration.

2.22 NH 10 which connects Siliguri and Gangtok is the lifeline of Sikkim and only connection with rest of the country. We have been seeking a Special Package for restructuring, renovation and up-gradation of NH 10 which includes modern and appropriate highway designs like improving the load bearing capacity of the road, shortening distance measures like geometric improvement of curves and bends and, construction of new bridges over rivers and rivulets; counter fort RCC wall below the road to increase the width as well as protection of roads. Due to the heavy traffic, road accidents are becoming common, highway protocols, therefore, need to be enforced and policing of NH 10 at identified locations is necessary. Considering the geo-strategic importance of the State, the NH 10 highway has to be upgraded and modernized for the benefit of the tourism sector, industries and the general public of Sikkim and adjoining areas.

2.23 Sikkim is a landlocked State comprising of young & fragile mountains, rivers, streams and water springs; thus, making it both diverse and vulnerable to natural catastrophe. The hills of Sikkim mainly consist of gneiss, phyllites and schist rocks which are highly susceptible to weathering and erosion. This combined with the State's heavy rainfall and its location in the high-risk seismic zone IV, causes extensive soil erosion and leaching, often times resulting in landslides. The fund allocated by the Government of India for land slide mitigation is very meager which is exclusively based on the Government of India pan India guidelines which is not adequate in this Himalayan State. As such, the Government of India may look into the policy for providing adequate fund so that the roads can be maintained properly as the road network is only mode of communication.

2.24 Air connectivity to Sikkim is weather dependent. The Pakyong Airport is the first ever Greenfield airport in Northeast India situated at the level of 4641ft in the State and 100th operational airport in India was inaugurated by the Hon'ble Prime Minster on 24th September, 2018 and commercial flight operation was started w.e.f. 4th October, 2018. However, despite being the modern airport it is non-functional. The Sevoke-Rangpo Railway Line is under implementation for over a decade. Sikkim is the only State which is fully dependent on road; an uncertain connectivity.

2.25 Voice and 2G Coverage is provided to almost 90% of the habitable areas of the State by the TSPs. Airtel and service providers also provide 3G and 4G services in some of the above sites. The coverage of 4G network is available in about 50% to 60% of the habitable areas. The services however are not reliable or stable even in the Capital Gangtok. Bharat-Net Phase I and Phase II was taken up by BSNL in 2018 and 2021 to provide connectivity to Gram Panchayat Units on Optical Fibre Cable Connection but most of these are yet to be connected. Utility ducts for Telecom are the need of the hour and if support is provided by the Government of India, Sikkim State can in the short term take up the project in all the towns of Sikkim. The project, if taken immediately can reduce Right of way issues, as population is less in most of the towns. In building solutions would make services reliable in Towns and Cities with the use of Telecom ducts.

Empowering Women- Economic Empowerment

2.26 Despite the many challenges, women in Sikkim have worked hand in hand with men in building the home, family and society and their contribution cannot be undermined. Labour force and workers participation of females in Sikkim at 47.5 percent and 46.4 percent, respectively of population is nearly twice the national average of 24.8 and 24 percent. However, there is need of designing projects with women in focus and preferential support. The financial independence of women is the first step towards women empowerment and financial and vocational training are immediate concerns. The women-centric initiatives of the government have ensured a gender neutral/gender friendly environment which has compounded the positive impacts of development strategies by creating dynamics, which is now required to be further strengthened for ensuring more opportunities and last mile coverage of all womenfolk. Pradhan Mantri Matru Vandana Yojna (PMMVY), crèche centers, Sakhi Niwas (erstwhile Working Women's Hostel) at Gangtok, Shakti Sadan (erstwhile Swadhar Greh) at Lower Burtuk, Gangtok and Women Entrepreneurs and Self-Help Groups run and headed by women are operational in the State. However, these need to be scaled up significantly. In the current Budget, Government of Sikkim has proposed to have a fully women police battalion, may be first of its kind in India.

2.27 The gender equality for Sikkim primarily concerns with the empowerment of females in all respects, social, economic and psychological. It encompasses measures to improve their capabilities through training, making legal system to recognise them as independent in schemes, programmes and at all places where it matters. Cultural norms, rule of society and mechanisms through which final outcomes are determined are the three elements which lead to gender disparities, and these are proposed to be addressed in a time bound manner. Initiatives which are administrative and legislative have either been taken or in the process by the Government of Sikkim.

Civic Amenities

2.28 Sikkim is fortunately better placed in many civic facilities, critical for ease of living. Some of these as available from 78th NSSO survey on multiple indicators are the following:

- Nearly 75 percent of the rural and 87 percent of urban facilities have access to water for their exclusive use as against national average of 49 percent in rural areas and 65 percent in urban areas. 70 percent of families have it in their own premises as against all-India average of 39 percent. 65 percent of the families have access to piped water supply as against national average of 33 percent,

- Sikkim is open defection free State and the first State to have achieved this milestone. More than 94 percent of the families have access to hand wash facility with soap or detergent as against the all-India average of 82 percent.
- Nearly 94 percent of facilities have LPG as their main cooking medium compared to all-India average of 47 percent. Nearly half of the families use clean energy for cooking, heating and lighting.
- 63 percent of persons in 15-24 age groups are enrolled or have completed non- formal education as against all India average of a little over 50 percent. Females are not way behind with 57 of them (as against 45 percent as national averages) are enrolled in non-formal education.
- Sikkim has the problem of wasted youth. Nearly 30 percent of youth in age group 15-29 are neither in education nor employment and nor in training (NEET). Though it is slightly better compared to the national level average of 33 percent, it is far too high compare to some other North East States, more particularly Arunachal Pradesh and Mizoram, where it is just 5 percent. More than four fifths of the youth in age groups 15-24 have ICT skills. 87 percent of youth above the age of 15 have mobile phones and more than two thirds are exposed to mass media and broad band. The near universal access augurs well for use of modern training, skill development and AI. Government of Sikkim, through a holistic eco-system such as "Niyukti Kendra" has conceived of a Single Window System for delivering Services for all the stake holders and Digitization and strengthening of internet connectivity for effective monitoring. In Budget 2023-24, Indira Gandhi Computer Saksharta Mission, an organization registered under the Indian Public Trust Act, of 1882 has been created to establish Sikkim Global Technical University with objectives to provide Higher Education with skilled and entrepreneurial.
- Institutional access in terms of banks is also significantly high. More than 90 percent of individuals (male & female) have bank accounts. This facilitates direct benefit transfers to individuals and leads to financial literacy.
- Indebtedness in Sikkim is relatively low. Only 7.7 percent of individuals above the age of 18 were indebted. This proportion was more than twice as high at national level.
- Citizen centric facilities were available on line without human interface and there was general awareness about getting registered, nearly 100 percent of births in the State were registered. 88 percent of migrants were able to shift their identity to their new place of residence. More than 95 percent of habitations were covered with all-weather roads and over 90 percent were using public transport as means of transportation. Housing stock was continuously on increase.

Gati Shakti for Area Development and Social Infrastructure

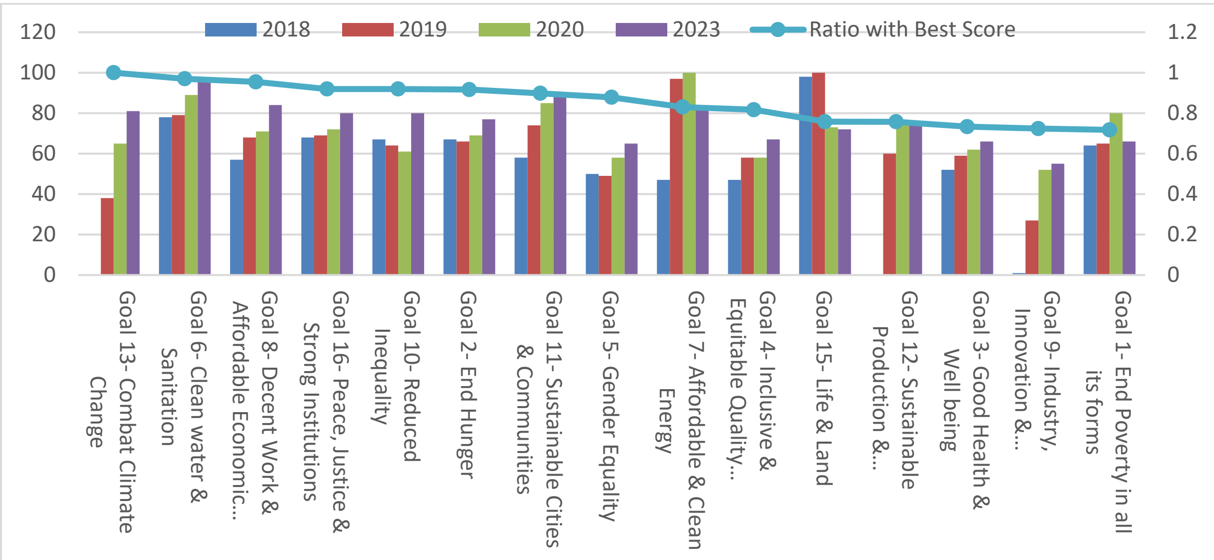
2.29 The PM Gati Shakti National Master Plan (NMP) was launched in October 2021 with a vision to enable a mechanism for coordinated planning and to provide a bird's eye view of planned development to all the Ministries for holistic and integrated development. NMP envisages the creation of a system for inter-connected and multimodal transportation networks leading to integrated economic and infrastructure development, improved trade competitiveness, promotion of exports and employment generation. It provides the overall framework for planning, sanctioning and execution of projects. The scope of PM Gati Shakti is getting broadened to include departments of health, women and child development, rural development and panchayati raj, education, housing and urban affairs and culture. This will make the intervention more inclusive and catering to all economic and social aspects.

2.30 The State Strategic Urban Plan 2040, a non-statutory document, proposes to adopt "multi-nuclei structure". The planning proposals envisage a clear guide on development strategies in the short-term, medium-term and long-term for the State of Sikkim. Currently social and economic infrastructure of housing, water supply & sanitation, education and health, power and transport connectivity are major intervention areas. The challenges being faced include financing for augmentation and growth; capacity building and rationalization of State cadres to include subject specialist; land rehabilitation and resettlement; sustainability of infrastructure through designated revenue stream; limited construction period as an exogenous constraint; and availability of land.

Basic Services & Performance

2.31 The Sustainable Development Goals (SDGs) are ambitious commitments and a new paradigm for development. The SDGs are a bold universal set of 17 Goals to help organise development actions for overall human wellbeing, while leaving no one behind. The SDGs are in a way commitments and goalposts to be achieved by 2030, with implementation strategy and achievements staggered over a time frame of three, seven and fifteen years. These were adopted by 193 countries in September 2015, and became effective on January 1, 2016. India played a prominent role in the formulation of SDGs and much of the country's National Development Agenda is increasingly getting mirrored in the SDGs.

Fig 2.1: SDG Score of Sikkim during last four years



Source: Niti Aayog SDG Reports

2.32 The spectrum of the 17 SDGs range from poverty eradication, human health and sanitation to urban settlements and to safeguarding the ecosystems necessary for our survival. Sikkim, following SDGs has identified for itself, the milestones and goal posts of each of these SDGs. State as envisaged by Niti Aayog prepared a detailed Report on Sustainable Development Goals, identifying goal post values for each indicator to be achieved over defined time periods. The Report also identified the instruments for achieving these goals and the resources that could possibly be allocated to each of these. These goals and the timeframe envisaged for their attainment have a wider acceptability as these have been adopted after discussions with the Departments and they have fully been on board for these goals and their realization. There has been a continuous process of inter departmental discussion and each Department has fully been sensitized for this new development paradigm.

2.33 There has an all-round improvement in most significant of these being the ones relating to end poverty in all its forms; industry, innovation; sustainable production and consumption; and combating climate change. According to the first India Multidimensional Poverty Index (MPI) report published by NITI Aayog in 2021, in terms of headcount ratio, Sikkim has the third lowest percentage of population at 3.82 percent who are multidimensional poor in India. We, however, need to upscale our targets. Our Directorate of Economics & Statistics has completed 'Unnayan Survekshan 2022', a very comprehensive household survey on the status of poverty and inequality in Sikkim. The key findings of the report will further facilitate adoption of appropriate interventions and support in our target the most vulnerable. The State is not only small in terms of population; it is isolated, landlocked and has a difficult terrain. Sustainability of its growth and livelihood opportunities, therefore, are critically dependent on connectivity and fiscal support.

3. Fiscal Situation of the State

Sikkim has usually been a fiscally prudent State and has managed its finances within the contours of its Fiscal Reforms & Budget Management Act and Rules there under. Finances, both the revenue and their composition and expenditure including the sectoral priorities have undergone changes consistent with the aspiration of people and Government Priorities. Sustainability of State Finances has remained critically dependent of transfers from the Union in terms of the States' share in taxes and Grants-in-aid. The Union Government has usually been supportive of the State initiatives. State suffered massive natural disaster in 2023-24 and flood situation continues to be critical in the current year having fiscal and administrative implications.

For sustained economic recovery and for ensuring better lives and livelihood opportunities, State needs to explore all possible options for resource mobilization. While the transfer of resources from the Union in terms of the share of the State and grants are expected to remain buoyant given the growth prospects and revenue mobilization, State needs to look at its own tax and non-tax revenue sources. In terms of the State's own tax resources, four taxes, viz., GST, Sales Tax, State Excise duties and Taxes on vehicles account for over 90 percent of total receipts. Of these taxes, State GST, though collected and retained by the State is nonetheless imposed collectively through GST council and only option is to improve the compliance. It is possible to reduce the leakages and improve revenue by 5 to 10 percent. Sales Tax is currently at an optimum rate and any increase could lead to tax diversion. Excise duty rationalization is an option. However, State needs to consider a comprehensive professions and establishments and scale it up. Major taxes of the State, their growth, Tax/GSDP ratio and buoyancy are summarized in Table 3.1.

Table3.1: Major Taxes (Rs crore), Annual Growth, Tax/GSDP Ratio & Tax buoyancy

Year	Own Tax Revenue	Stamp Duty	Sales Tax	State Excise	Taxes on Vehicles	GST	Other Taxes	Tax/GSDP Ratio
2018-19	897.98	14.9	188.2	183.1	33.1	405.72	67.9	3.3
2019-20	970.4	13.3	197.6	207.2	41.1	454.9	56.4	3.1
2020-21	966.7	13.1	195.2	210.3	29.0	463.0	56.1	2.9
2021-22	1254.4	23.3	227.2	249.2	39.1	655.5	60.0	3.3
2022-23	1497.3	26.5	248.8	298.5	49.7	804.2	69.6	3.5
2023-24(RE)	1743.3	27.0	280.0	315.0	56.0	964.1	101.2	3.7
2024-25(BE)	2163.5	28.0	250.0	450.0	73.0	1265.0	97.6	4.2
CAGR (per annum percent)								**Buoyancy**
2018-19	1.1	10.1	-24.6	21.7	12.7	9.5	-18.5	0.1
2019-20	2.4	-11.0	5.0	13.2	24.1	-1.3	-22.6	0.2
2020-21	-0.4	-1.3	-1.2	1.5	-29.5	1.8	-22.8	-0.1
2021-22	29.8	77.8	16.4	18.5	35.0	41.6	23.6	2.2
2022-23	14.5	-38.6	2.6	19.2	17.7	20.0	-1.3	1.1
2023-24(RE)	20.2	88.5	20.2	6.1	21.7	22.0	41.2	1.8
2024-25(BE)	24.1	3.7	-10.7	42.9	30.4	31.2	-3.6	2.5

Source: State Budgets

3.2 Overall tax/GSDP ratio in Sikkim is very low (largely because of the income which originates in the State but hardly contribute to taxes, particularly the manufacturing and electricity). Our earlier efforts for building up some balance between income generation and destination-based consumption, though considered sympathetically, and were not approved. There are some definite inferences from the table:

- Own tax/GSDP ratio which had declined to 2.9 percent in 2020-21 has improved to 4.2 percent. This is indeed remarkable as the ratio was nearly stagnating and existing sources were either not getting fully exploited or there were leakages.
- For consistently four years, buoyancy of taxes has exceeded 1 and in fact in last two years including current year, which though are Budget estimates, buoyancy is significant.
- State excise has emerged as new buoyant source so is the taxes on vehicles. This shows the willingness of the State to be innovative and reduction in leakages and exporting of taxes to neighbouring States.

3.3 The non-tax revenue of the State consists primarily of general services (mainly police and public works) and economic services. Recovery of user charges from social services has nearly been stagnating at a little over 1 percent. Recovery in economic services at aggregate level is also close to 38 percent. The recovery of economic services excluding power, which were stagnating at under 10 percent until 2021-22 have been raised in two years of 2022-24, but is expected to moderate again 2024-25. Non tax revenue, CAGR and buoyancy is indicated in Table 3.2.

Table3.2: Non-Tax Revenue (Rs crore), CAGR, Revenue Buoyancy and GSDP Ratio

Year	Own NTR	General Services	Social Services	Economic Services				NTR/ GSDP Ratio
				Total	Forestry	Power	Road Transport	
2018-19	657.8	157.1	16.8	354.2	17.5	269.4	54	2.3
2019-20	693.4	182.5	16.8	347	15.8	256.4	57.1	2.2
2020-21	662.3	87.1	27.9	417.5	14.9	346.1	47.9	2
2021-22	680.6	189.5	26.3	413.5	24.3	306.8	61.8	1.8
2022-23	976.1	200	27.8	678.1	180.3	402.7	68.3	2.3
2023-24(RE)	990.5	178.8	34.8	707.9	11.6	595.2	75.2	2.1
2024-25(BE)	927	194.6	42.7	615.6	39.9	460	92	1.8
CAGR (percent)								**Buoyancy**
2018-19	0.5	17.4	26.1	-9.1	23.3	-13.2	3.6	0.1
2019-20	5.4	16.2	0.2	-2	-10	-4.9	5.8	0.5
2020-21	-4.5	-52.3	66	20.3	-5.7	35	-16.2	-0.9
2021-22	2.8	117.4	-5.7	-1	63.4	-11.4	29	0.2
2022-23	46.9	-8.9	19.5	78.1	853.9	31.8	37.4	3.4
2023-24(RE)	7.9	3.6	10.6	8.2	-13.8	22.5	-11.4	0.7
2024-25(BE)	-6.4	8.8	22.7	-13	244	-22.7	22.3	-0.7

Source: State Budgets

3.4 Certain inferences from non-tax revenue are as under:

- Over the current century, non-tax revenue is yet to exceed Rs. 1000 crore mark. Non-tax revenue is expected to witness a negative growth, largely on account of a decline in revenue from power sector which has been affected due to Teesta power project.
- Social services are expected to continue to be buoyant with a growth of 22.7 percent. This is a positive movement on cost recovery.
- Revenue from forestry is moderating in last two years after a peak in 2021-22. This may partly be due to non-availability of cess. State is yet to get fully compensated for ecology preservation.
- There is space for non-tax revenue increase but the power sector debacle post disaster has been the critical factor.

3.5 State has been somewhat fortunate in transfers by way of taxes and grants. Grants suffered in 2020-21, the first year of the Fifteenth finance Commission, which was a standalone annual report in view of covid. There was a decline in tax transfers. From overall share of 72 percent in revenue receipt, the share of transfers declined to 65 percent. Assuming a normal revenue growth during this period, the share could notionally be expected have declined below 50 percent level. The recovery in transfers continued to get delayed until 2021-22. The pandemic and post pandemic recovery, therefore were largely be driven with static or even falling resources. Though the share of the State in tax transfers was retained by the Fifteenth Finance Commission at the level of Fourteenth Finance Commission, a decline and volatility in grants created revenue uncertainty. Overall transfers by way of taxes and grants and their share in revenue receipts is in table below:

Table 3.3: Tax and Grants Relative to Revenue Receipts (Rs crore)

Year	Revenue Receipts	Own Tax	Own Non-Tax	Central Tax Transfers	Grants in Aid	Transfers as Share of Revenue Receipt
2017-18	5,213	688	654	2,635	1,235	74.2
2018-19	5,920	898	658	2,790	1,575	73.7
2019-20	4,841	970	693	2,296	882	65.6
2020-21	5,608	967	662	2,302	1,677	71.0
2021-22	7,081	1,254	681	3,288	1,858	72.7
2022-23	8,104	1,497	976	3,865	1,766	69.5
2023-24(RE)	9,553	1,743	990	4,285	2,534	71.4
2024-25(BE)	10,749	2,164	927	4,839	2,819	71.2

Total Expenditure & Deficits

3.6 The snapshot of revenue expenditure reveals the following:

- During 2020-21 and 2021-22, revenue expenditure grew only moderately largely because of the revenue constraints.
- Nearly 60 percent of revenue expenditure is of developmental in nature, incurred on providing social and economic services.

- Road connectivity, power, agriculture including irrigation and forests are key areas of revenue expenditure consistent with the State priorities of providing basic amenities, supporting organic agriculture and employment generation programmes.
- Committed expenditure of interest payments (including debt servicing) and pension (including related financial services), account for 25 percent of total revenue expenditure and only 15 percent is for general administration, which mostly consist of salary expenses. In 2024-25, salary expenses are expected to corner 35 percent of total revenue expenditure.

3.7 The Revenue Expenditure of the State is summarized in Table 3.4 below.

Table3.4: Revenue Expenditure of the State (Rs crore) and CAGR (percent)

Year	Revenue Expenditure	Developmental Expenditure	Social Services	Economic Services	Non-Developmental Expenditure	Interest Payments	Pension & other Services	Grants
2018-19	5226.6	3199.9	2071.8	1128.2	1960.3	433.05	737.2	66.4
2019-20	6185.1	3681.4	2253.7	1427.8	2419.8	509.68	910.6	83.9
2020-21	6368.6	3859.2	2430.9	1428.4	2416.1	548.41	908.1	93.3
2021-22	6668.8	4001.1	2470.8	1530.3	2558.2	635.04	983.2	109.5
2022-23	7630.6	4548.6	2813.5	1735.1	2983.3	718.18	1150.24	98.7
2023-24(RE)	8628.8	5204.5	3118.7	2085.8	3305.5	825.48	1302.46	118.8
2024-25(BE)	10249.8	6035.5	3490.3	2545.2	4068.1	918.34	1512.79	146.2
CAGR								
2018-19	25.9	25.0	35.2	9.7	28.3	18.9	45.9	4.9
2019-20	18.3	15.0	8.8	26.6	23.4	17.2	23.5	26.4
2020-21	3.0	4.8	7.9	0.0	-0.2	7.4	-0.3	11.2
2021-22	4.7	3.7	1.6	7.1	5.9	15.5	8.3	17.4
2022-23	14.4	13.7	13.9	13.4	16.6	13.3	20.4	-9.9
2023-24RE)	13.1	14.4	10.8	20.2	10.8	14.6	12.3	20.4
2024-25(BE)	18.8	16.0	11.9	22.0	23.1	11.6	37.7	23.1

Source: State Budgets

3.8 Table 3.5 below gives a snapshot of fiscal outcome including revenue and fiscal deficit. As indicated above, the year 2019-21 were most difficult years in terms of finances of the State. A shortfall in revenue, largely due to factors exogenous to the economy of Sikkim together with sticky expenditure which were largely committed in terms of previous commitments and salary and interest payments (which are contractual in nature), State witnessed significant revenue deficit. While in 2019-20 and 2021-22, a contraction in capital expenditure maintained fiscal deficit, but economy suffered.

Table 3.5: Fiscal Outcome (Rs crore)

Year	Revenue Receipts	Revenue Expenditure	Capital Expenditure	Total Expenditure	Revenue Surplus	Fiscal Deficit
2017-18	5,213	4,152	1,524	5,676	1,061	463
2018-19	5,920	5,227	1,338	6,564	694	644
2019-20	4,841	6,185	738	6,923	(1,344)	2,081
2020-21	5,608	6,369	1,514	7,883	(761)	2,275
2021-22	7,081	6,669	1,317	7,985	412	905
2022-23	8,104	7,631	2,377	10,008	473	1,904
2023-24(RE)	9,553	8,629	3,447	12,076	924	2,523
2024-25(BE)	10,749	10,250	3,339	13,589	499	2,840

Source: State Budgets
Figures in Parenthesis in Col 6 indicate Revenue Deficit

3.9 During 2022-2025, Sikkim has maintained or likely to maintain a revenue surplus. A somewhat buoyant transfer has raised the revenue receipts and a continuous watch on expenditure had made it possible. A proper resource flow during 2019-2021 would have made it better for the State to manage its finances even better. Fiscal deficit as conventionally measured in terms of GSDP is likely to reach 5.4 percent of GSDP. However, in view of the long-term Central Government Loans which have a 50 years tenure and are interest free could be considered as exclusion (these are not covered as part of deficit in terms of FRBM rules also). The Deficit would then fall 2.7 percent of GSDP. Overall fiscal outcome is summarized in Table 3.6.

Table 3.6 - Deficit and Debt (Rs crore) and as percent to GSDP

Year	GSDP	Debt	Revenue Surplus	Fiscal Deficit	Fiscal Deficit/ GSDP	Debt/ GSDP
2017-18	25,971	5,451	1,061	463	1.78	20.99
2018-19	28,402	6,335	694	644	2.27	22.30
2019-20	31,441	7,402	(1,344)	2,081	6.62	23.54
2020-21	33,018	9,059	(761)	2,275	6.89	27.44
2021-22	37,650	10,863	412	905	2.40	28.85
2022-23	42,677	12,697	473	1,904	4.46	29.75
2023-24(RE)	48,937	15,220	924	2,523	5.16	31.10
2024-25(BE)	52,555	18,060	499	2,840	5.40	34.36

Source: State Budgets
Figure in Parenthesis in Col 4 indicate Revenue Deficit

Fiscal Liabilities & Debt sustainability

3.10 Sikkim adopted a rule-based system of Fiscal Reforms and Budget Management (FRBM) in line with the recommendations of various Finance Commissions. The FRBM mandates the Government to adhere to deficit targets as also the public debt and other liabilities of the Government as per the FRBM adopted by the State. The ceiling of fiscal deficit and fiscal liabilities are fixed as percent to the Gross State Domestic Product of Sikkim as finally released by the National Statistical Office. Further, all loans and borrowings of the State have necessarily to be approved by Ministry of Finance. Article 293(3) stipulates that a State may not, without the consent of the Government of India, raise any loan. Since the comparable GSDP estimates come after a time lag, Ministry of Finance sets the Net Borrowing Limit of a State based on the formula as given by the Fifteenth Finance Commission. GSDP as released by the Directorate of Economics and Statistics, though are arrived at independently by them, these are required to be validated and approved by the National Statistical Office.

3.11 All borrowings as Table 3.7 below reveals are duly authorized and approved by Ministry of Finance and Net Borrowing Ceiling (NBC) fixed for a year considers all liabilities including the net accruals from Public Account. Borrowing by any Special Purpose Vehicle, payment of interest and principal for which is serviced through the State Budget are also considered under NBC since 2022-23. Fiscal liabilities of the State are expected to double in 2023-24 compared with 2018-19. These have indeed grown faster than both GSDP and the revenue receipts of the State.

Table 3.7: Outstanding liabilities under FRBM & as authorized (Rs crore)

Year	Outstanding Debt & Liabilities	Incre-mental Borrowing	Borrowing @ 3% of GSDP	Extra Borrowing allowed	Reasons for Extra Authorized borrowings
2018-19	6,335				
2019-20	7,402	1067	943	216	One-time special dispensation due to economic slowdown and resultant shortfall in devolution of Central taxes.
2020-21	9,059	1657	954	373	a) An additional borrowing of 2 % of GSDP due to pandemic and macro-economic considerations, the State raised only 1.2 % of GSDP
				200	b) 50 years interest free loan
				573	Total (2020-21)
2021-22	10,863	1804	1105	343	a) Normal borrowing ceiling raised to 4% as per FRBM Act (increase by 1%)
				191	b) 0.5% of GSDP linked to power sector reforms
				300	c) 50 years interest free loan
				834	Total (2021-22)
2022-23	12,762	1899	1213	191	a) Normal borrowing ceiling raised to 3.5% as per FRBM Act
				551	b) 50 years interest free loan
				239	c) Pension funding Adjustments
				981	Total (2022-23)

2023-24	14,910	2148	1420	170	a) 0.33% of GSDP linked to power sector reforms
				798	b) 50 years interest free loan
				257	c)Pension funding Adjustments
				1225	Total (2023-24)
Extra Borrowing		**8575**	**5635**	**3829**	

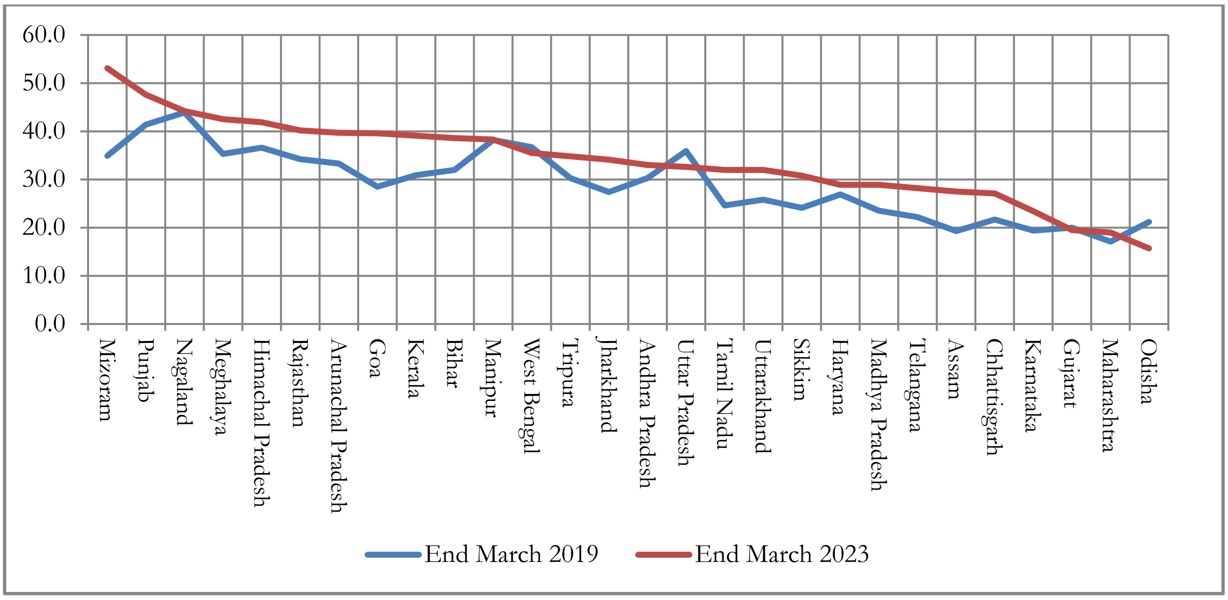
Source: Sikkim State Budget and Department of Finance

3.12 The entire nation including State Government was facing a difficult fiscal environment in 2020-21 due to shortfall in tax revenues arising from the Pandemic. Since Capital Expenditure had a high multiplier effect and enhances the future productive capacity of the economy, and results in a higher economic growth, considering the adverse financial position, the Central Government has launched a special scheme of assistance to the State Governments from financial year 2020-21 for Capital Investment/Expenditure. In 4 years from 2020-21 to 2023-24, a total of Rs. 1849 crore has been received. This, being a long-term interest free loan, exclusively for capital expenditure, was highly concessional and considered for being availed by the Government of Sikkim. Exclusion of these loans from the debt and other liabilities of the State would the debt/GSDP ratio to 28.3 percent in 2023-24 from the projected level of 31.5 percent.

3.13 State availed borrowing during 2019-20 to 2023-24 of Rs.950 crore as authorized by Government of India by way of one-time special dispensation (Rs. 216 crore in 2019-20); reform linked (Rs. 373 crore in 2020-21); reforms linked to power sector (Rs. 191 crore in 2021-22 and Rs.170 crore as expected in Budget 2023-24). Last six years have been the most challenging and difficult years of the Government. Overall growth had already started moderating from 2016-17 and it had declined from 8.3 percent in 2016-17 to 3.9 percent in 2019-20. In 2020-21, the growth at national level had turned negative because of the pandemic which had severally restricted economic activities. Sikkim was also affected due to the slow down at the national level. However, despite of this external constraint, Sikkim in terms of overall GDP growth performed better than the national average.

3.14 Finances of the State were severally affected during 2019-20 and 2020-21. In 2019-20, the shortfall in Share of Central Taxes was Rs. 674 crore against Budget Estimate due to macro-economic factors in the country and shortfall in receipt of Rs. 693 crore against grants in aid for CSS and Central Sector schemes. Availability of funds from these two sources had declined by Rs. 1367 crore during 2019-20. With nearly 80 percent of expenditure committed towards interest payments, salary & wages and pensions, the resultant revenue deficit of Rs. 1344 crore had to be partly adjusted from previous cash balances and additional borrowings. Similarly, in 2020-21, the Share of Central Taxes declined by Rs. 740 crore against Budget Estimate due to Pandemic. Entire resources of the State were more or less earmarked to safeguard the lives and livelihood opportunities of the people affected during prolonged pandemic, lasting for nearly two years. Fiscal deterioration during this period was not confined to Sikkim. In fact, as per the study by the Reserve Bank of India of State Budgets released in January, 2023, 18 States had debt/GSDP ratio higher than that of Sikkim (Fig 3.2).

Fig 3.2: Debt/GSDP Ratio of States (percent)



Source: RBI State Finances

3.15 Sustainability of debt cannot exclusively be determined by debt/GSDP ratio. Besides the outcome of debt in terms of saving lives and strengthening livelihood opportunities, other parameters which could be used to ascertain debt sustainability are- ratio of debt to revenue receipts; rate of interest on debt relative to GSDP growth; and ratio of interest payments to revenue receipts. Currently fiscal consolidation targets are measured as flows, revenue/fiscal deficits as percentage of GSDP or interest payments as percentage of revenue receipts. The goal post value of public debt is, however, defined as the ratio of the stock of debt to GSDP. While this is a most prevalent debt sustainability parameter, GSDP is only a surrogate base. It may be desirable to also consider the stock of debt as a ratio of the revenue receipts of the State. It would mean changing the denominator from a proxy resource base to realized resource base. Position of the States together and Sikkim in terms of these sustainability parameters are summarized below (Table 3.8). It would be observed from the table that in all parameters of debt sustainability, Sikkim fares far better than most of the States.

Table3.8: Debt Sustainability Parameters- Debt in Rs crore and rest as percent

Item	2018-19	2019-20	2020-21	2021-22*	2022-23*	2023-24*
All States						
Debt & Other Liabilities	4,786,770	5,350,716	6,155,000	6,793,770	7,609,926	-
Debt/GSDP	25.3	26.7	31.1	28.7	29.5	-
Debt/Revenue Receipt	182.7	200.4	237.9	202.6	197.3	-
Interest/Revenue Receipt	12.18	13.15	14.96	12.94	12.21	-
Rate of Interest	7.43	7.33	7.23	7.05	6.93	-
Sikkim						
Debt & Other Liabilities	6,335	7,402	9,059	10,863	12,762	14,910

Debt/GSDP	22.3	23.54	28.49	29.5	31.57	31.5
Debt/Revenue Receipt	107	152.9	161.5	153.4	140.4	159.3
Interest/Revenue Receipt	7.31	10.53	9.78	7.91	8.06	7.82
Rate of Interest	7.33	8.05	7.41	6.19	6.74	5.74

* For All States 2021-22 is (RE) and 2022-23 is (BE). For Sikkim 2023-24 is (RE)

Sikkim Government Guarantee

3.16 Article 293(1) of the Constitution of India extends the executive power to the State Government to give Guarantees on the security of the Consolidated Fund of State, within such limits, as may be fixed as per the Sikkim Ceiling on Government Guarantee Act, 2000. Guarantees are contingent liabilities that arise on occurrence of an event covered by the guarantee. The outstanding guarantee as on end March, 2023 stood at Rs 4443.73 crore which is equivalent to 11% of GSDP projected for 2022-23. 86 percent of these guarantees were issued prior to 2019-20. The outstanding guarantee is within the ambit of the Sikkim Ceiling on Government Guarantee Act, 2000.

3.17 Increase in fiscal liabilities, which essentially was triggered by a decline in revenue in 2019-20 and 2020-21, provided the State with the required resources to strengthen livelihood opportunities and increase capex of the State. It was not that the additional resources were squandered in profligate schemes. The State has reverted to the normal FRBM mandated path of fiscal deficit and debt and will further strengthen fiscal sustainability.

4. Viksit Sikkim- A medium term strategy of achieving the objective

Overall GSDP growth of Sikkim recorded a robust growth of 13.1 percent during 2011-12 to 2023-24. Growth moderated to 11 percent during the pandemic and post pandemic period and averaged 11 percent during the last four years. However, the observed growth has yet to capture the impact of disaster that struck Sikkim during October 2023 affecting entire economy of Sikkim, with devastating impact, in particular on road and hydroelectricity sector. In view of this growth during the award period of the Sixteenth Finance Commission growth is expected to remain moderate in the base line scenario. Further, it is more than a year and nothing of substance to improve expectation has happened both on connectivity front and on the power sector, limiting the take a scenario other than the base level one. Not only there is a likely impact on GSDP, there is also a moderating impact of State revenues. The connectivity issue and disruption of NH 10, which was nearly blocked for two months has been affecting GST and other tax collections of the State and overall revenue loss on taxes could be more than Rs. 1000 crore during the current financial year. In section below, we present the sectoral GSDP expectations during FC-XVI and State finances.

GSDP Base level Forecast

4.2 The structure of GSDP in Sikkim is different from the rest of country with primary sector contributing just 8 percent of its GSDP, with crops being the dominant sector. Overall growth of primary sector during 2011-12 to 2023-24 and between 2019-20 to 2023-24 has respectively averaged 12.8 percent and 5.6 percent. The secondary sector of Sikkim is a dominant sector accounting for a share of nearly 60 percent. Until 2023-24, the electricity and utilities have been one of the most buoyant sectors recording a growth of 15.8 percent during 2011-12 to 2023-24. Further, its growth improved over last four years covering the covid and post covid years. Manufacturing sector, despite a significant presence of organised manufacturing, facilitated through the Industrial & Investment policy recorded a growth of 5.8 percent in most recent four years. However, in view of the massive disaster that struck Sikkim in October 2023, the electricity sector has come under severe strain. In view of this the projection for GSDP growth from this sector has considerably moderated. Tertiary sector is a wide multi-disciplinary segment of population comprising trade, transport, professional services, banking & insurance and key social services of health, education and service delivery and monitoring mechanism through public administration. We expect a fairly stable growth of this sector.

Table 4.1: GSDP base line Projection (Rs crore)

Item	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Primary	3,811	4,026	4,254	4,496	4,752	5,085	5,441	5,822
Secondary	28,621	30,289	32,058	33,937	35,931	40,961	46,286	52,303
Tertiary	14,031	15,349	16,792	18,371	20,099	22,753	25,328	28,176
GSVA	46,463	49,664	53,104	56,803	60,782	68,799	77,055	86,301
GSDP	**48,937**	**52,555**	**56,234**	**60,170**	**64,382**	**72,108**	**80,761**	**90,452**

Annual Rate of Growth (percent)								
Primary	-	5.65	5.67	5.68	5.70	7.00	7.00	7.00
Secondary	-	5.83	5.84	5.86	5.88	14.00	13.00	13.00
Tertiary	-	9.39	9.40	9.40	9.41	13.21	11.32	11.24
GSVA	-	6.89	6.93	6.97	7.00	13.19	12.00	12.00
GSDP	-	7.39	7.00	7.00	7.00	12.00	12.00	12.00

4.3 Overall gross value added and GSDP during 2025-31 as projected is summarized in table below. The per capita income is expected to cross 12 lakh mark in 2030-31. Overall GSDP growth is projected at 7 percent increasing to 12 percent in last three years. Though it may appear to be conservative and low side, one needs to consider the massive disaster that struck Sikkim in October 2023. It affected the entire State with agricultural land, power project and road network bearing the brunt. With Chungthang dam and Teesta power project being washed away, a net decline in the power sector GSDP is likely, as the share of Teesta Urja in GSDP from electricity sector was nearly 40 percent. Massive rehabilitation work is required for even the agricultural land to reach their potential production levels. For power sector, revival is more of a medium to long term. Similarly, NH 10 was blocked for over 2 months and even after it becoming operational, this single lane has become a difficult terrain. A journey from Siliguri to Gangtok, which is 120 kms takes between 6 hours or more for small vehicles with bigger commercial vehicles either non-operational or take even longer. The cost of transportation has increased by over 25 percent. This is affecting trade, revenue collection, tourism and infra projects through cost and time over runs.

Table 4.2: GSDP Base Forecast of Aggregate all sector (Rs crore)

Item	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
GDSP	**48,937**	**52,555**	**56,234**	**60,170**	**64,382**	**72,108**	**80,761**	**90,452**
Population	6920	6980	7040	7100	7160	7180	7240	7300
Per Capita GSDP (Rs Lakh)		7.53	7.99	8.47	8.99	10.04	11.15	12.39
GSDP Growth %		7.39	7.00	7.00	7.00	12.00	12.00	12.00
Per Capita GSDP %		6.47	6.09	6.10	6.10	11.69	11.07	11.08

Fiscal Forecast

4.4 Fiscal forecast are required to be made under difficult conditions. During 2024-25 Budget, the State has not only rationalized the tax structure, it raised the rates under various taxes to optimum levels. With economic difficulties, the realization BE figures would be difficult. However, we have taken 2024-25 BE figures as base line figures and have projected revenue and expenditure. Summarized position is indicated in Table 4.3.

4.5 For the States' own tax and non-tax revenue, we have taken a buoyancy of less than 1. While overall revenue receipt is projected to grow at 12.1 percent, the buoyancy comes from a higher growth assumed for tax transfers and flow of grants. The Union revenue receipt is expected to remain buoyant both on account of base change and also buoyancy greater than one.

Reference is also made of our suggestions with regard to divisible pool which are proposed to be all inclusive and cover Gross Revenue Receipt of the Union.

4.6 Revenue expenditure in most cases are assumed to grow at 10-14 percent depending on the observed growth during 2011-12 to 2024-25, but in areas of pension it has assumed to grow at 20 percent. In revenue expenditure, adjustment has also been made of the higher expenditure that would occur in 2025-26 and in later years as the newly regularized employees will move from consolidated pay to a normal scale. The additional expenditure in 2026-27 is over Rs 1000 crore.

4.7 In economic and social services, usual pattern has been to follow the observed growth with some adjustments. The fiscal forecast results in a Revenue Deficit to be covered by a Revenue Deficit grant in a matching manner. Capital expenditure is projected to grow 10 percent, with an expectation that as in the previous year long term loans outside FRBM limits would be available for capital expenditure proposes. Overall snapshot of Fiscal projection is in Table 4.3.

Table 4.3: GSDP and Fiscal Forecast for 2025-26 to 2030-31 (Rs crore)

HEADS	RE	BE	Forecast					
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
I. Revenue Receipts (1+2)	**9,553**	**10,749**	**12,028**	**13,472**	**15,101**	**16,941**	**19,021**	**21,372**
1. State's Own Revenue	2,734	3,091	3,298	3,519	3,754	4,006	4,275	4,562
i. Total Tax Revenue	1,743	2,164	2,315	2,477	2,650	2,836	3,034	3,247
ii. Total Non-Tax Revenues	990	927	983	1,042	1,104	1,170	1,240	1,315
2. Transfers from the Centre (3+4)	6,819	7,659	8,731	9,953	11,347	12,935	14,746	16,810
3. Share in Central Taxes	4,285	4,839	5,517	6,289	7,169	8,173	9,317	10,622
4. Grants from Centre	2,534	2,819	3,214	3,664	4,177	4,762	5,429	6,189
II. Revenue Expenditure	**8,629**	**10,250**	**11,890**	**13,792**	**15,724**	**17,927**	**20,438**	**23,301**
III. Capital Expenditure	**3,447**	**3,339**	**3,673**	**4,041**	**4,445**	**4,889**	**5,378**	**5,916**
IV. Capital Receipts	**2,717**	**2,884**	**1,684**	**1,893**	**2,128**	**2,392**	**2,689**	**2,968**
V. Revenue Deficit	**(924)**	**(499)**	**(139)**	**320**	**623**	**985**	**1,417**	**1,929**
VI. Fiscal Deficit	**2,523**	**2,840**	**3,534**	**4,361**	**5,068**	**5,874**	**6,795**	**7,845**
VII. GSDP at Current Prices	**48,937**	**52,555**	**56,234**	**60,170**	**64,382**	**72,108**	**80,761**	**90,452**

4.8 Fiscal forecast as indicated are considerably dependent on resource transfers from the Union. An attempt has been to tentatively project Gross Tax Revenue (GTR) and Gross Revenue Receipt (GRR) of the Union. The Viksit Bharat @ 2047 aims to raise the GDP of the country to US$ 35 trillion. This massive increase in GDP requires, with different assumptions with regards to the US$ and INR rates, a growth of 13.1 to 14.8 percent.

Viksit Sikkim @ 2047 Initiatives

4.09 The Viksit Sikkim is all inclusive initiative to accelerate growth and make development programme more citizens centric. During this period Sikkim expects in GSDP to grow to a level of nearly US$ 70 billion from a current level of US$ 6 billion. This would require not only an increase in the State's revenue and capital expenditure, private initiatives in innovation, infrastructure and investment (3Ns) would be needed. While most of the initiative has been covered in Chapter 2, additional initiatives are indicated in paras below.

Atma Nirbhar Agriculture

4.10 Under the Watershed Development programme, the Forest Department is promoting dairy development, bench terracing, fodder development, springshed development, agribusiness, water storage infrastructure, and microenterprises in a big way. Dairy FPOs, Agriculture FPOs and SRLM SHGs are being supported in livelihood development, marketing and microenterprise. For this purpose, convergence partnerships have been forged with the Animal Husbandry and Veterinary Services Department, Agriculture Department and the Rural Development Department. Also, about 1000 women beneficiaries are supported under Intensive Bivoltine Sericulture Project for the production and marketing of cocoons. In the past years cocoon production within State has increased by three times which has proved its feasibility in the State and also given way for the launch of organic Sikkim Silk in the near future. About 500 unemployed youths and farmers of Sikkim have been provided Green Skill training for livelihood support through beekeeping, bamboo crafts, forest fire management and solar energy systems with an aim to promote sustainable development in the State.

4.11 Centre should set aside handsome funds for establishing an export-oriented, industry-empowered Organic Food Park cum Free Trade Warehousing Zone (SEZ-FTWZ) in the State. This Mountain Port like venture will offer common third-party logistics and supply chain infrastructure such as organics-only processing, handling, and warehousing facilities will serve as a magnet for private players into organics and set the stage for transformational sectoral growth. Considering robust financial incentives available under the SEZ Act 2005, such as tax incentives, duty exemptions, and regulatory benefits, it is proposed that aforementioned Organic Food Park cum SEZ-FTWZ be established by forming a joint venture with a third-party logistics and supply chain management company that is keen on foraying into green-field SEZ-FTWZ projects.

Tourism Development

4.12 Following a stakeholders' workshop on sustainable tourism in 2014, the State observed to focus on the tourism sectors comprising Conventional leisure-based tourism; Ecotourism; Adventure tourism; Culture and religion-based tourism; village home stays; Health & wellness tourism and MICE tourism (Meetings, Incentives, Conferences and Exhibitions). It spelled out modalities for managing tourism destinations, infrastructure and amenities created so far and the augmentation needs including addressing overcrowding in ecologically sensitive high-altitude wetlands such as Gurudongmar and Tsomgo. Besides developing tourism as a dynamic sector in the economy of Sikkim, it attempted to make Sikkim a prime 'round the year' destination for nature, adventure and culture-based tourism globally, ensuring that tourism benefits are broad based to support local, social and economic development. The policy conceived of delivering best hospitality services and to attract high value tourists for longer stays.

4.13 Sikkim has had the advantages of sustained financial and policy support from the Union Government. The 'Parvatmala scheme' for hilly areas including Sikkim will create a modern system of transportation and connectivity on the mountains. The gap funding support for projects under PM-Divine has facilitated completion of eco-friendly ropeway cable car project from Dhapper to Bhaleydhunga in south Sikkim. Situated in beautiful landscape of Yangang Sub-Division in South Sikkim, Sikkim's longest and highest ropeway, the Bhaleydhunga Ropeway, is the State-of-the-art ropeway is a remarkable feat of engineering and is highly anticipated to become a popular tourist attraction in the region and an economic mainstay of the people of the region. This ropeway is set to connect several points in Yangang, including Dhapper to Bhaleydhunga hill, and the upcoming Central University in Yangang. The Bhaleydhunga Ropeway falls under the Mainaam Wildlife Sanctuary, and all necessary measures have been taken to ensure that the ropeway operates in a safe and environmentally sustainable manner. The tourist potential of ropeway at Bhaleydhunga hills could be significantly enhanced by some supportive additions in the form a Sky Walk on the hills accessible through this ropeway.

4.14 Sikkim has not emerged as yet the wedding destination, though potential exists. Particularly ethnic wedding along monasteries and other destination could catch up. The two issues that is critical in this regard in arability of aggregators and event managers. The tour operators of Sikkim need to be facilitated by the Government in finding a suitable tie up partner. Tourism significantly depends on on-mouth publicity and through social media platforms. Aggregators and event managers could be the right intermediaries in this regard. There has hardly been public private partnership including corporate partnership in this field. Sikkim is a hub of pharmaceutical industries and together with Government the Industry, individually or collectively could conceive of a theme-based tourism package of wellness, rejuvenation and recreation. These two areas will be our focused areas in new tourism initiatives.

4.15 Social media can provide perception and the central theme about tourism perception and perspective. Further, analysis of social media data allows for identifying factors influencing tourist services, their expectations and the shortcomings on a real time basis. The findings highlight several pertinent factors, including affordability, dynamic pricing, food requirements, pick up and drop arrangements, local infrastructure and accommodations, tourist preferences and available technologies, all impacting the overall tourist experience. Tourism needs to be planned in advance and tourists and those in the hospitality industry seek accurate weather forecasts to make informed decisions regarding travel schedules and accommodation choices.

Sustaining Ecology

4.16 Sikkim has been extremely sensitive to ecology and environmental protection. Government has always placed the top most priority to public participation in governance and the conservation of natural resources for the current as well as future generations of Sikkim by creating an environmental legacy: ***"Mero Rukh Mero Santati"***. It aims to strengthen connect between parents- children and nature by planting 108 trees to commemorate childbirth. Watching the trees grow, as the baby grows, is a symbolic way of commemorating their arrival and is good for Sikkim and the planet as well. Our Sikkimese society has had an intimate association with nature since time immemorial. We not only revere our mountains, lakes, rivers caves and springs but venerate the entire landscape as sacred. This initiative will also reinforce this age-old bond of our society with nature. It aspires to co-create an ecosystem where both the tree and the child are able to reach towards the sun, a brighter tomorrow that promises vitality, health and happiness. More than two thousand parents have already registered for the initiative in the past two months and others are in the process. The programme will also prove to be a giant leap in creating carbon neutral societies.

4.17 Our other initiatives to sustain ecology and environment include:

(i) A Day for Mother Earth to be observed on July 7 annually was launched in 2019. Under this initiative, vehicular movement is halted for 7 minutes from 11 am to 11.07 am on July 7 across the State for addressing climate change.

(ii) Declaration of State Butterfly: The Blue Duke was declared as the State Butterfly of Sikkim jointly through a consortium of experts and public voting, a first-of-its-kind exercise in the State.

(iii) Protecting the environment*:* The State Government has banned packaged drinking water bottles of capacity upto 2 litres to maintain a clean and healthy environment in the State. This has received positive support from the people.

(iv) Promoting urban forestry*:* Several initiatives are underway to strengthen urban forestry to improve the quality of life in our towns and cities. The new Nagar Van Yojana scheme for the five districts namely has been sanctioned and implemented during 2023-24. These Nagar Vans will function as green lungs of the urban and peri-urban areas.

(v) Payment for ecosystem services policy innovation*:* During 2022-23, an innovative policy instrument "Payment for Ecosystem Services" was introduced to charge for the commercial use of water from commercial establishments as an ecosystem service. The revenue collected during the first year amounted to Rs 154.7 crore.

Thrust on MSMEs

4.18 Pandemic in 2020-21 severally affected these enterprises necessitating a stimulus package with additional liquidity support and deferment of institutional credit dues. However, with two thirds of the enterprises being unregistered and more than half of the registered enterprises not seeking institutional credit support, these bailout packages were of limited significance. There are usually three biases in any bailout package, first it covers the units which are easily reachable (road side bias), second, the units with which the institutions or authorities are familiar (nearness bias) and thirdly the units which are relatively more resilient (have greater immunity) or (bias of the comfort) and these do not even bring the most vulnerable ones into any reckoning of bailout packages.

4.19 Sikkim recognizes the importance of MSME sector and has formulated a MSME policy in 2022 to promote the development of entrepreneurship within the State by increasing awareness, sensitization and exposure and to assist young entrepreneurs by providing skill development training, all round incubation, funding access, subsidies, marketing assistance and technology support to upscale their businesses. An appropriate incentive package has also been conceived with 100% exemption from stamp duty, reimbursement of 50% SGST for a period of 3 years from the date of commencement of commercial production/services and, interest Subsidy of 25% for the first five years for their credit loan. MSME sector are also provided green incentives. The Government of Sikkim has also envisaged development of industrial estates in all the districts of Sikkim having minimum 15 acres each and construction of flatted factories.

4.20 Basic requirements for making MSME vibrant may require the following. First, incentivise registration of establishments; both the owner operated ones and ones which have hired labour for access to incentives and institutional credit. Second, many of these establishments are providing services/products to State/Union Government, Local Bodies, PSUs of the State and the Union and large public limited companies and a significant amount is receivable from these units. The Samadhan scheme of MSME as is being implemented has a very limited coverage. It is important to create a separate window to purchase such receivables and others from MSME sector, at an appropriate discount so that recovery part is delegated/outsourced. Such mechanism will allow the sector to concentrate on key economic activity. Third, vocational trade specific training and training of soft skills are necessary.

Civic Amenities & Social Empowerment

4.21 Government of Sikkim is now fully prepared to implement all the policies and provisions as envisaged in the forward looking and transforming New Education Policy 2020 of India. We have taken conscious policy decisions to comprehensively operationalise the NEP in two interdependent subsectors viz., school education and higher education. Over the years, the State has made great strides in providing access to quality primary education encompassing all sections of the society across the State. Having overcome the first challenge of physical barrier to access, efforts are now focused towards inclusion and community participation as tools to facilitate accessibility. Sikkim today has the largest number of educational institutions per one lakh population in India and is one of the most literate states of India today with current estimate of literacy rate of more than 90 percent and a GER exceeding 75 percent. The Atal Tinkering Labs have become a precious tool for engaging students with innovative, creative and practical methods.

4.22 The urban population growth has indeed been phenomenal. From less than 10 percent of total population residing in urban areas in 1991, currently nearly 30 percent of population is urban based. By 2047, it is expected that more than half of the population of Sikkim would be urban centric. Urban governance and urban planning is, therefore, very important for Sikkim. Though Sikkim has a head start and in terms of the access to electricity, safe drinking water and sanitation, we still need to effectively address the issue of segregation, reduction, reuse and disposal of waste.

4.23 The State Strategic Urban Plan 2040, a non-statutory document, proposes to adopt "multi-nuclei structure". The planning proposals envisage a clear guide on development strategies in the short-term, medium-term and long-term for the State of Sikkim. Currently social and economic infrastructure of housing, water supply & sanitation, education and health, power and transport connectivity are major intervention areas. The challenges being faced include financing for augmentation and growth; capacity building and rationalization of state cadres to include subject specialist; land rehabilitation and resettlement; sustainability of infrastructure through a designated revenue stream; limited construction period as an exogenous constraint; and availability of land.

4.24 Sikkim has made a progressive improvement in some of the health indicators. For example, the Infant Mortality Rate in Sikkim is 5/1000 live birth (SRS-2020) is much better as compared to the National average. Similarly, the Institutional Delivery in Sikkim is 94.7%, (NFHS-5). As per the data available, the State has burden of both over-nutrition as well as under-nutrition. Similarly, the out-of-pocket expenditure in Sikkim is much higher than the National average. Late marriages and related health problems including low Fertility Rate is a major issue in the State now. Increasing C-Section is also an area of concern.

4.25 The root cause of malnourishment is not so much the inadequacy of food but its skewed consumption, tilted towards subsidized cereals, notably wheat and rice, rather than the relatively nutritious coarse grains like millets. There was a general consensus at the conference of Chief Secretaries that millets should get added to our food plate. Millets are less expensive and nutritionally superior to wheat & rice owing to their high protein, fibre, vitamins and minerals like iron content. These are also rich in calcium and magnesium. Millets can provide nutritional security and act as a shield against nutritional deficiency.

Making State PSEs competitive

4.26 The State Public Sector Enterprises play a major role in the economic development of the State and also on providing employment in the State. Due to the landlocked nature of the State and vulnerable infrastructure, private sector investments in setting up industries are always not forthcoming. The following are some of the considerations for making the State PSEs more competitive.

- Management Competency & Capacity Building: Without a capable management with good business competency, PSEs often suffer from losses and apathy. Therefore, there should be a dedicated cadre of managers for running of PSEs. Specialists who have a good knowledge of finance and business should be hired for running the enterprise.
- Variable Pay based on business performance: As in the private sector, management should be paid according to the business performance of the PSE and pay should not be fixed as in the case of government employees. Only through various incentives will management of the PSEs strive to improve the profits of the organization.
- Less Interference and more autonomy: PSEs should be provided more autonomy in taking decision related to investment and business in order to respond to the changing needs of the market. There is requirement for more autonomy and less interference in order to ensure timely decisions that affect the performance of the organization.
- Improved Monitoring and Control: The Management of the PSEs should be regularly monitored for performance and compliance and there should be an easy mechanism to hire and fire the staff under PSEs. They will ensure that management is responsible for profitability of the organization.
- Compliances: The PSEs should be regularly monitored for various compliances related to company laws and other regulatory statutes. Erring management should be severely dealt with to ensure good performance.
- Capitalization: All PSEs should be well capitalized and should have access to enough financial resources for expansion of the business.

- Listing of PSEs: Good PSEs should be listed in the stock exchanges and government can earn return on their investment. The market will also ensure that PSEs focus on improving their profitability.

Relinquishing non priority enterprises

4.27 PSE operating in non-priority areas can be relinquished and privatized. However, in smaller states like Sikkim, where it is extremely difficult for private sector to flourish due to the high logistics and manpower cost, the State PSEs should continue to operate even if they just break even. In Sikkim, since the burden on providing employment is falling on the State, the New-Age State PSEs can ensure that the employees' recruitment by the State Government can be gainfully employed in the State PSEs.

Initiatives of Transport Division

4.28 Some of the initiatives of transport division are summarised below:

1. Fleet augmentation: The department has already initiated process for phasing out of old BS series departmental HCVs and replaced utmost 55-60 % of the fleet with latest BSVI vehicles in phase wise manner since FY 2020-21.
2. State EV policy: The Sikkim Electric Vehicle Policy has already been notified by the Transport Department in 2023, which aims to promote the transition from diesel to electric vehicles (EVs) while supporting eco-tourism and maintaining Sikkim's carbon-neutral and carbon-negative status.
3. Policy for Construction Machinery and Equipment's: SNT Division of the department has initiated the mandatory Enlistment of all construction machines to streamline the deployment and operation of constructional machineries and equipment within the State of Sikkim with a view to eliminate the unsanctioned operational practices duly in consideration of safeguarding the environment, interest of local public and signifying the concept of ease of doing business.
4. Fitment of VLT Device: The process for fitment of VLT devices in almost 90% of the departmental fleet of buses has been successfully attained by the department.

4.29 For Public transport strengthening steps have been taken which include:

1. Community Awareness programs: Conduct workshops and campaigns to raise awareness about climate change and its impact thereby encouraging public to prefer public transportation over individual/Private vehicles.
2. Transition from IC Engine to battery-operated electric vehicles.
3. Provide accessibility of public transportation to those living in rural areas.
4. Provide reliable and efficient public transportation and City runner service with real-time information.
5. The Parivahan mobile app has been launched empowers citizen with instant access to various information service and utilities related to Vahan & Sarathi.
6. Artificial Intelligence Traffic Management System has been introduced by installing Traffic signals in all notified junctions within Sikkim; automated checking of the validity of vehicle documents using number plate recognition technology (NPR); generation of e-Challans; and detection of over speeding, vehicle theft cases and overloading of trucks (using under road weighbridges) at strategic places.

Power Sector Reforms

4.30 Power Sector Reforms has been the focus area of the Government during the 15th Finance Commission period between 2021-26. Measures have been taken to achieve operational efficiency, financial sustainability and higher degree of empowerment and extension of social benefit to the citizens.

Sector-Wise Activity and Achievements in the Area of Power Reforms

4.31 Infrastructure development in generation sector: Power Department, Govt. of Sikkim has had mini and micro hydel power houses under its management. Owing to various factors, these assets were either non-operational or were operating below their rated capacity resulting in revenue loss to the Government. Seven numbers of such power houses with total installed capacity of 26.2 MW were identified and leased out to a private company on a Renovate, Operate, Maintain and Transfer (ROMT) basis. As on date, out of the seven projects, four projects have been fully operationalised along with capacity enhancement. A total of 17 MW has been added over and above the original generation capacity of these four projects. The State government is entitled to get 12% free power from these projects. In addition to projects mentioned above, two new green-field projects with total installed capacity of 16.6 MW have also been awarded.

Infrastructure development and reforms in the distribution sector:

4.32 Two major initiatives in distribution sector have been initiated and are currently underway. First is the Revamped Distribution Sector Scheme (RDSS). The Government of India has approved the Revamped Distribution Sector Scheme (RDSS) to help DISCOMs improve their operational efficiencies and financial sustainability by providing result-linked financial assistance to DISCOMs to strengthen supply infrastructure based on meeting pre-qualifying criteria and achieving basic minimum benchmarks. The scheme aims to meet the following objectives of reduction of AT&C losses to pan-India levels of 12-15% by 2024-25; reduction of ACS-ARR gap to zero by 2024-25; and Improvement in the quality, reliability and affordability of power supply to consumers through a financially sustainable and operationally efficient distribution sector. The Scheme provides for financial support for Prepaid Smart Metering & System Metering and up-gradation of the Distribution Infrastructure followed up by training & Capacity Building and other Enabling & Supporting Activities. Prepaid Smart metering and system metering are proposed to be implemented through PPP on TOTEX (CAPEX+OPEX) mode. In two tranches Rs. 489.3 crore has been received. Smart prepaid metering work has already been initiated and completion is targeted by June 2025. Other activities linked to infrastructure works related to loss reduction has also commenced concurrently. All of these measures will lead to improvement in operational efficiency and financial sustainability of the power sector in the State.

4.33 Project funded under Asian Development Bank (ADB): The Sikkim Power Sector Development Project (SPSDP) with a total project outlay of US$186 million (Rs.1,539 Crore) is an initiative by the Power Department, Government of Sikkim to "make available 24x7 reliable power to all households, agriculture, industry, commercial businesses, and other power consumers in the State and develop a climate- and disaster-resilient and renewable ready power system to support energy transition". Financial Plan: To finance the SPSDP, a sovereign loan from ADB has been obtained amounting to US$148.50 million (Rs.1,229 Crore) and Government of Sikkim counterpart financing of US$37.50 million (Rs.310 Crore). The sovereign loan has been arranged through a loan agreement that has been signed between the Department of Economic Affairs of the Ministry of Finance, Government of India and the ADB. Therefore, Sikkim being a Special Category State, 90% of the loan proceeds will be made available to the Government of Sikkim in the form of grant.

4.34 Project Objectives: The implementation period of the SPSDP is 2024-2029, and the project aims to achieve the following objectives by 31st December 2029: (i) reduce the average technical and commercial losses to 17% (ii) duration of power outages (hours/consumer/year) reduced by at least 50% (from existing 432 hours); (iii) average cost of supply-average revenue recovery gap reduced to zero and (iv) greenhouse gas emissions reduced by 1,94,185 tons per year (on average) from technical loss reductions and efficient use of renewable or hydro power generation.

4.35 Status of Progress: Against the ADB loan of US$148.50 million, contracts amounting to US$90.0 million (~61%) has been awarded till date. Presently, the surveys and design works are being undertaken by the contractors. ADB is also providing technical assistance support in the form of grant to enhance the power management and regulatory function of the Power Department of Sikkim. The interventions being implemented in SPSDP, paves the way for implementation of projects to support Green Energy Transition that will contribute to meeting decarbonization goals of Government of India.

4.36 Summary of milestones achieved during the 15th Commission period

- Through various proactive measures adopted by the department, various indices of performances have seen gradual improvement over the years.
- The State has benefited from financial incentives tied to power sector reforms such as additional borrowings. Under Additional Borrowings, the State has accessed funds of Rs. 517 crore in three tranches.
- Drawl of high-cost power from CPSUs were curtailed and electricity requirement of the State was supplemented by free power available to the State from HEPs. Surplus power was traded. This resulted in reduction of Average Cost of Supply on a year-on-year basis with the decreasing trend continuing from 2020-21 up to 2022-23.
- Enhancement of revenue collection was given special attention and emphasis.
- The ACS/ARR gap fell to sub-zero value of -0.68 for the year 2022-23.
- AT&C loss has also seen a downward trend with AT&C loss value during 2023-24 sitting at 28.02%. The downward trend is a positive but a need is seen here for heightened effort to achieve the national target of 12-15%.

4.37 There has been a debilitating event that has affected the performance of the power sector in the State adversely. The catastrophe that followed the flash flood in the Teesta River during October 2023 led to large scale destruction of property and loss of lives. Amongst the infrastructure destroyed included Teesta Stage-III HEP dam site. Power house installation of three major hydro projects i/c Teesta Stage-III along the Teesta River basin also sustained major damages. This has led to instant loss of generation capacity of 1806 MW from these three major hydro projects. Also indirectly affected were mini hydel projects located in Mangan District whereby 7 MW of power from two such projects have been bottled up owing to severe damage to associated transmission lines. Fallouts of the same in quantifiable terms have been experienced as follows: -

(i) Revenue loss to the State: Teesta Stage-III HEP of 1200 MW capacity was a project where the State was the majority shareholder. The loss was a direct hit to the State exchequer.

(ii) Loss in generation capacity of 1806 MW affected the whole national grid. In terms of revenue, discounting power from Teesta Stage-III, loss of 12% free power from Teesta Stage-V (510 MW) and Dikchu HEP (96 MW) has led to increase in expenditure and loss in revenue.

(iii) Due to flash flood event during October 2023, for the year 2023-24, a drop of 26.8% and 28.5% was seen in the units of free power available to the State from Dikchu HEP and Teesta Stage-V HEP respectively.

(iv) In revenue terms, there was a loss of Rs. 55.0 crore in revenue during 2023-24 compared to the previous financial year just on account of these two power houses. During financial year 2024-25, there will be a total loss of Rs. 194.75 crore.

(v) On account of sudden loss in generation and the resultant loss of 12% free power accruable to the State from these projects, the department, in order to meet the demand supply gap was forced to apply for 77 MW power allocations from Central Sector Generating Stations plants effective November 2023 which came at a very high per unit cost.

(vi) Loss of 12% free power and import of 77 MW high-cost power has had a negative effect. While cost of supply increased, the total revenue has seen a dip due to purchase of expensive power and curtailment of trading of surplus electricity. This led to marginal increase of the ACS-ARR gap to 0.04 during 2023-24.

(vii) The full detrimental effect will be seen during FY 2024-25 when all key indices will see deterioration.

State Government view of New & Old Pension Scheme

4.38 As in the other states of the country, it has come to the attention of the State government that there has been significant interest among certain sections of employees in reinstating the Old Pension Scheme. In response to this demand, the State government has initiated a process to gather opinions from employees regarding their preference between the old and new pension schemes. Recent reports in the print media may have construed the state government actions as a firm intention to shift to the Old Pension Scheme. However, our primary objective remains to solicit feedback from government employees and assess the demand. It may be mentioned here that while this process is underway, the State government has not made any definitive decisions regarding the transition to the Old Pension Scheme. In the meantime, it is worth noting that we continue to honour our commitments to the Ministry of Finance, Department of Expenditure, Government of India, by maintaining contributions to the New Pension Scheme. Further, the State is mindful of the fact that the Central Government has constituted a committee to review the NPS for government employees and evolve an approach which addresses the needs of the employees while maintaining fiscal prudence. This has, therefore not been considered in projection exercise.

5. Distribution of Resources between the Union and the States

There has been a persistence of vertical imbalances in the Indian federation, beyond the level envisaged in the Constitution. Increase in the scope of cesses and surcharges on Central taxes, persistence tax expenditure or revenue forgone in direct and indirect taxes, increased share of the States in flagship schemes and withdrawal of favourable treatment to Special Category States in transfers from the Fourteenth Finance Commission have been among the notable features of the Centre-State financial relations in last five years. The Government of Karnataka requests the Fifteenth Finance Commission to address these issues. The Commission is requested to align the revenue raising powers and options of the Union and the States' with their respective expenditure obligations as listed in the Seventh Schedule of the Constitution. The Commission may also consider suggesting a minimum threshold on the overall revenue account transfers to States at 55 percent of the gross revenue receipt of the Union.

The cooperative fiscal federalism effectively functions on the belief that "the multilevel governments can augment the pursuit of efficiency and equity in the provision of public and merit goods through cooperation, competition and collaboration among central and sub-national governments where these interactions take place within the framework of a set of well-defined rules, preferably through a constitutional arrangement"[1] Since there is an asymmetry in allocation of resources and expenditure responsibilities, any fiscal transfer mechanism while facilitating delivery of services by the constituents should ensure that the right incentives are provided to each tier of government for maximizing the welfare through this decentralized arrangement.

5.2 The asymmetry envisaged in the Constitution, however, has not remained stable and static and may have to an extent accentuated beyond the level envisaged in the Constitution and tilted the balance in favour of the Central Government. As the Fourteenth Finance Commission has rightly observed that in resource transfers, (a) it is necessary to consider Union finances as a whole, of which the divisible pool of taxes is one component; (b) the total transfers from the Union Government to the States should be considered, of which transfers on account of the Finance Commission are one component and (c) while the expenditures of the Union and the States should be considered as a whole and both the Union and the States have to create fiscal space, the Union finances are crucial in this context and its fiscal policies have a more critical role to play[2]. It further stated that both the Union and the State Governments contribute to the country's fiscal environment, but the former has a greater role and responsibility in this area. The Union Government accounts for almost two-thirds of the consolidated revenues and debt. Its financial position is critical for external sector stability and the stability of the financial sector. Its fiscal management has significant implications for monetary and macroeconomic management. We urge that all stakeholders recognise the predominant role of the Union in fiscal management[3]. The Commission also reiterated the suggestion made its predecessors of having an institutional

1 Federalism and Fiscal Transfers in India- C Rangrajan and D K Srivastava

2 Report of the Fourteenth Finance Commission, para 5.26

3 Report of the Fourteenth Finance Commission, para 14.87

mechanism that will promote greater reliability and credibility in fiscal policy at both tiers of government.

5.3 Overall transfers from Finance Commissions have remained sticky for nearly a decade now. While the Fifteenth Finance Commission retained the share of States' in the divisible pool of Union taxes to 41percent (it was reduced to 41 percent from 42 percent earlier as Jammu & Kashmir ceased to be a State), it was actually a balancing between resource transfers by way of entitlement and by way of endowments. Notwithstanding, an increase in the share of the States' in the divisible pool of taxes, overall transfers as a proportion to gross revenue receipt of the Union have been at most sticky. We would like to flag some of issues relating to fiscal federalism for the consideration of the Sixteenth Finance Commission.

5.4 Prior to the recommendation of the Tenth Finance Commission, only the proceeds of income tax and excise duties were sharable. Tenth Finance Commission recommended an alternative scheme of global sharing of tax receipts and suggested that 26 percent of the tax receipts of the Centre should be transferred to the States. This share was gradually increased to 29.5 percent (Eleventh Finance Commission), 30.5 percent (Twelfth Finance Commission), 32 percent (Thirteenth Finance Commission), 42 percent (Fourteenth Finance Commission) and 41 percent (Fifteenth Finance Commission). Actual transfer of these resources has, however been short of the recommended shares, largely because of an increasing use of cesses and surcharge by the Union Government. The States' share in gross tax receipts of the Centre were nearly been stable from Seventh Finance Commission onwards, between 25-28 percent in last over 35 years and increased in last nine years (Table 5.1).

Table 5.1: Share of the States' in Gross Tax receipts of the Centre (Rs. Billion)

Finance Commission	Years covered by the Report	Gross Tax Receipts of the Centre	Tax Receipts transferred to the States	Share of the States in Gross Tax Receipts (percent)
Tenth	1995-20	6,958	1,905	27.4
Eleventh	2000-05	11,509	3,074	26.7
Twelfth	2005-10	26,626	6,902	25.9
Thirteenth	2010-15	50,988	14,174	27.8
Fourteenth	2015-20	91,810	31,993	34.8
Fifteenth	2020-26	150,955*	47,735	31.6

Source: Finance Commission Reports and Union Budget * Covers 2020-25

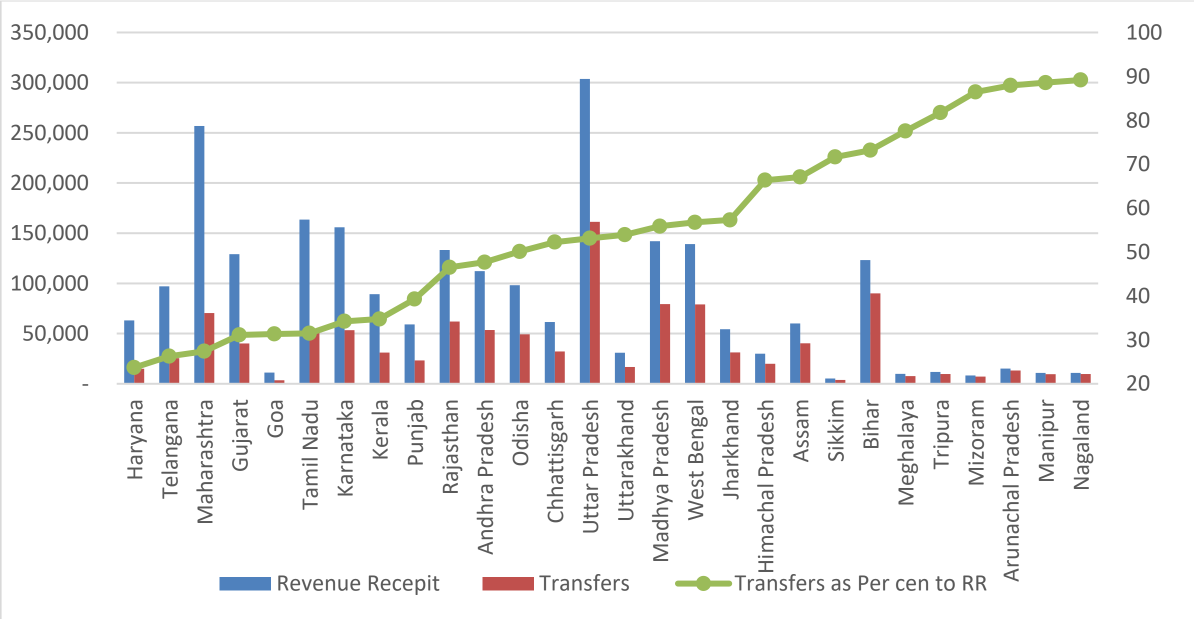
Transfers have been significant to States Revenue

5.5 Transfers from the Union to the States have been a significant component of overall revenue receipts of the States and averaged 46percent during 2015-22 period[4]. In many of States,

[4] Reserve Bank of India: Study of State Budgets, December, 2023

particularly the States with Special Category Status and the States with relatively lower per capita GSDP, the transfers' constituted over 90 percent of their revenue receipts (Fig 5.1 and Table 5.2).

Fig 5.1: Transfers & Revenue Receipt (Rs crore) and Share of Transfers



Source: RBI State Finances

Table 5.2: Transfers & Revenue Receipts (Rs crore) and its share

Details	Revenue Receipt	Transfers	Share of Transfers		
			Revenue Receipt	GSDP	Per capita (Rs)
All States	2,435,420	1,124,681	46.18	6.37	8,592
North Eastern States	132,412	101,336	76.53	19.47	20,040
Backward States	996,086	557,224	55.94	10.65	8,728
Others States	1,306,922	466,121	35.67	3.91	7,521
Southern States	618,357	214,994	34.77	3.93	8,110

Source: RBI State Finances

5.6 The Figure 5.1 and the Table 5.2 reveal that there are significant interstate differences. In terms of the share of transfers in revenue receipt range varies from a low 23 percent for Haryana to 88 percent for Arunachal Pradesh. For bigger states, range is narrower. For backward States covering Bihar, Uttar Pradesh, Madhya Pradesh, Jharkhand, Odisha, Uttarakhand and Himachal Pradesh it exceeds 50 percent. West Bengal, surprisingly also falls in the category where transfers have exceeded 50 percent. In five southern States, the average transfers are just 35 percent. In other better off states of Maharashtra, Gujarat and Haryana, share of transfers matches the southern States. While per capita transfers are more converge to the average, except for the NE States. The transfers as percent to GSDP follow the pattern similar to that of the share in revenue receipt, because these two parameters are generally highly correlated

In overall, central transfers grants continues remain significant

5.7 Overall transfers have two components- mandatory and discretionary. While tax transfers and some of the grants as recommended by Finance Commission are mandatory transfers, other grants for centrally sponsored and central sector scheme operated by different Departments are discretionary. Tax transfers, as the share has remained more or less same during the award period of Fourteenth and Fifteenth Finance Commission, have moved in a narrow range, the difference is largely attributed to the access of cess and surcharges and non-tax revenue in resource mobilisation. Grants or discretionary transfers on the other hand have shown a little buoyancy. These reached a level of 27 percent of Gross Revenue Receipt during the pandemic in 2020-21, but since are fluctuating with a downward bias (Table 5.3). As percent to GDP, central transfers are nearly expected to reach 7 percent level in 2024-25 from around 6 percent during the first year of the award period of fourteenth finance omission. However, despite this shift in transfer mechanism in favour of entitlements, grants continue to be important component of States' resources.

Table 5.3: Devolution of taxes and Grants to States from Union (Rs Billion)

Years	Gross Revenue Receipt	Tax Transfers	Grants	Tax Transfers % to GRR	Total Transfers % to GDP	Grants Transfer % to GRR
2015-16	17,069	5,062	3,228	29.7	6.02	18.9
2016-17	19,887	6,080	3,726	30.6	6.37	18.7
2017-18	21,118	6,730	4,083	31.9	6.33	19.3
2018-19	23,162	7,615	4,260	32.9	6.29	18.4
2019-20	23,372	6,507	4,666	27.8	5.49	20.0
2020-21	22,347	5,950	6,092	26.6	5.85	27.3
2021-22	30,743	8,984	7,561	29.2	6.99	24.6
2022-23	33,396	9,484	8,600	28.4	6.62	25.8
2023-24(RE)	38,667	11,295	9,127	29.2	6.89	23.6
2024-25(BE)	43,859	12,472	9,751	28.4	6.99	22.2

Source: Union Budget- various issues

Non-Tax Receipts should also form part of divisible pool

5.8 Constitution currently do not provide for sharing of non-tax revenue with the States. Considerable revenue is generated by the Union from non-tax sources (Table 5.4), particularly by way of dividend and for economic services, particularly from royalties. While some revenues accrue to the Union as part of its sovereign functions, dividend and receipts from economic services arise due to assigning of exclusive rights for their use or investments, which operate in the States. The Finance Commission is requested to recommend dividends and revenue from economic services for being included in the divisible pool and shared with the states in the same manner as the tax receipts.

Table 5.4: Non-Tax Receipts of the Centre (Rs Billion)

Items	Gross Tax Receipts	Non-tax Revenue	Gross Revenue Receipt (GRR) of the Centre	Share of Non-Tax Revenue in GRR
2015-16	14,556.5	2,512.6	17,069.1	14.7
2016-17	17,158.2	2,728.3	19,886.5	13.7
2017-18	19,190.1	1,927.5	21,117.5	9.1
2018-19	20,804.7	2,357.0	23,161.7	10.2
2019-20	20,100.6	3,271.6	23,372.2	14
2020-21	20,271.0	2,076.3	22,347.4	9.3
2021-22	27,092.2	3,651.1	30,743.3	11.9
2022-23	30,541.9	2,854.2	33,396.1	8.5
2023-24(RE)	34,647.9	4,018.9	38,666.8	10.4
2024-25(BE)	38,401.7	5,457.0	43,858.7	12.4

Source: Union Budget- Various issues

5.9 Over the years, there has been a proliferation of special levies – generally used to finance specific programmes for a finite time period – viz., cess, surcharge and other additional/special duties that the Central Government has resorted to within the ambit of additional revenue mobilisation (ARM) measures. Consequently, the amount of tax revenue raised by the Central Government through special levies has increased sharply in the recent period. The share of special levies in the Central Government's gross tax revenue (GTR) has increased rapidly from 8.8 percent in 2012-13 to 15.2 percent in 2016-17 and may have increased even further. Though the extension of surcharges and cesses has been done for specific purposes, they are being continued on a permanent basis and more as a revenue raising measure. Idea of taxes not forming part of divisible pool is the sum total of collection costs and cess and surcharges. Table 5.5 highlights that part.

Table 5.5: Gross Tax Revenue, States' Share and the balance share of the Union

Years	Gross Tax Revenue	State Share in Taxes	Net Tax to Union	Gross Revenue Receipt	States' Share/ GRR	States' Share/ GTR	Union Share/ GTR
2015-16	14,556	5,062	9,438	17,069	29.7	34.8	64.8
2016-17	17,158	6,080	11,014	19,887	30.6	35.4	64.2
2017-18	19,190	6,730	12,425	21,118	31.9	35.1	64.7
2018-19	20,805	7,615	13,172	23,162	32.9	36.6	63.3
2019-20	20,101	6,507	13,569	23,372	27.8	32.4	67.5
2020-21	20,271	5,950	14,263	22,347	26.6	27.1	70.4
2021-22	27,092	8,984	18,048	30,743	29.2	33.2	66.6
2022-23	30,542	9,484	20,978	33,396	28.4	31.1	68.7
2023-24 (RE)	34,648	11,295	23,265	38,667	29.2	32.6	67.1
2024-25 (BE)	38,402	12,472	25,835	43,859	28.4	32.5	67.3

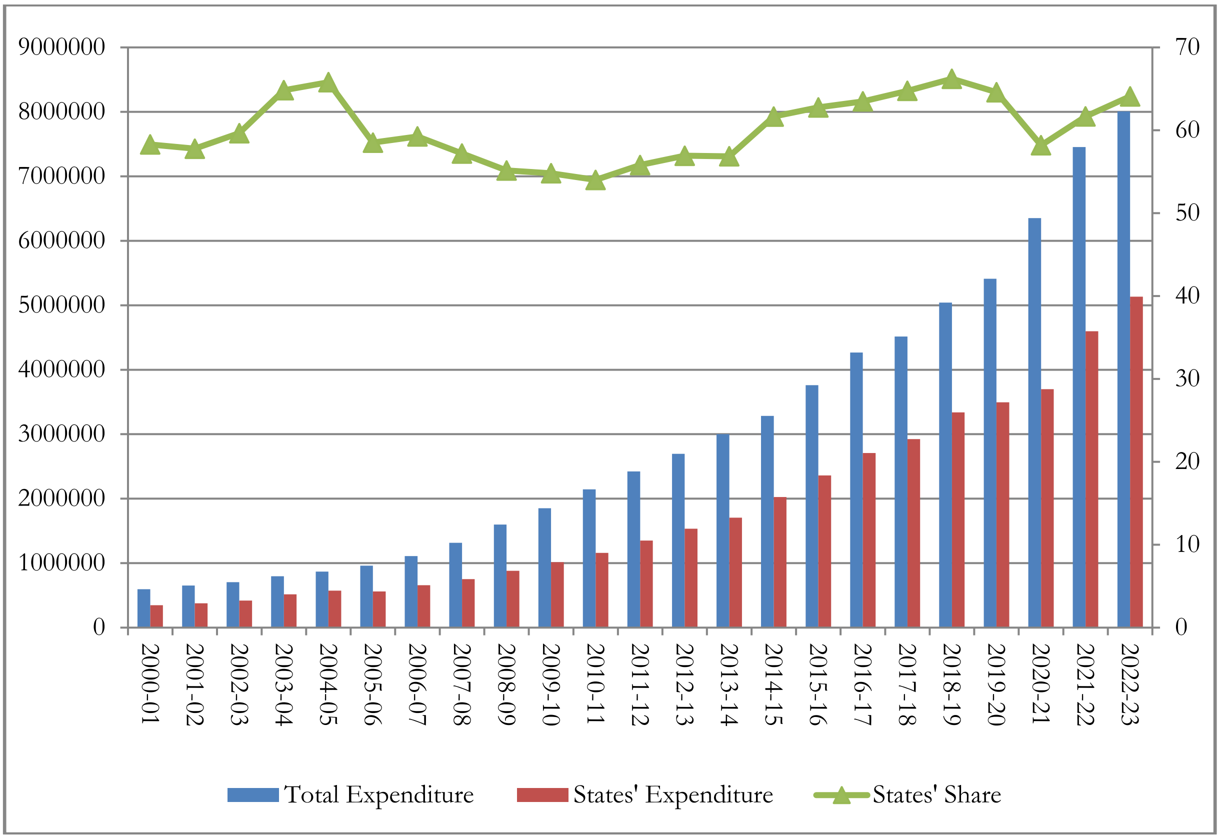
Source: Union Budget- Various issues

5.10 The Table 5.5 clearly indicates that while the share of the States' in GTR has remain below the level specified by the fourteenth and fifteenth finance commission, net taxes to Union has exceeded that level. Technically the share of Union in GTR should be 59 percent as against this it has hovered between 64 to 70 percent. This additionality is due to the presence of cess and surcharges, and in 2024-25 budget this amount is expected to cross Rs. 33,000 crore. This is revenue forgone by the States' collectively with each State sharing in proportion to its allocation.

States have a dominant role in developmental expenditure

5.11 The share of States in overall expenditure has generally been sticky and moved in a narrow range. If we consider total expenditure as composed of developmental and non-development expenditure, the share of States seems to have sharply gone up from around 55percent in 2000-01 to a little over 64percent in 2022-23 (BE).

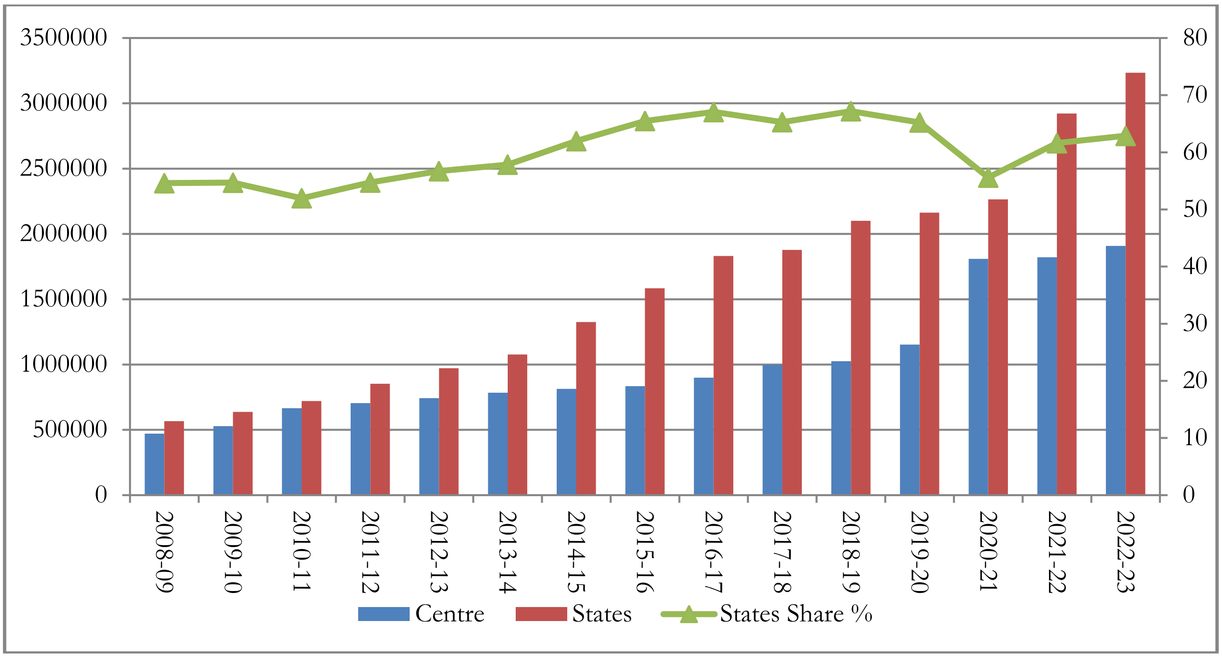
Fig 5.2: Share of the States in Consolidated Expenditure (percent)



Source- Reserve Bank of India- Handbook of Statistics on States, 2023

5.12 As the Sixth Finance Commission observed, 'When the emphasis is on social justice, there is no escape from realignment of resources in favour of States, because services and programmes which are at the core of a more equitable social order come within the purview of the States under the Constitution' and this shift has further gone towards the States. But a corresponding flow of resources needs to be ensured to meet these obligations. The share of the States in overall development expenditure increased from 55 percent in 2008-09 to over 67 percent in 2016-2019, before moderating at a level of 63 percent in 2022-23. Overall growth of development expenditure of the Union and the States' averaged 10.5 percent and 13.2 percent respectively.

Fig 5.3: Development Expenditure of Union & States' (Rs crore) and States' Share



Source- Reserve Bank of India- Handbook of Statistics on States, 2023

Overall transfers should have a minimum floor rather than any ceiling

5.13 State finances are critically dependent on transfers from the Union. It is, therefore, necessary that these are in general insulated from the shocks or changes in exogenous parameter values. The Union Government is better equipped to deal with such externalities. 14thFinance Commission rightly observed that revenues foregone or tax expenditures (currently estimated at around 10 percent of GTR, excluding the liabilities under MAT), and expanding cesses and surcharges during the review period (estimated at around 12 percent of GTR), represent significant exclusions of States from the divisible pool. Even if, these are considered as being in the domain of the Union, these do erode transferable resources to States. Under these circumstances, it may perhaps be more desirable to suggest an indicative floor below which the actual transfers will be fully protected.

Structural changes in Indian Economy having bearing on fiscal scenario

5.14 There have been some structural shifts in Indian economy which have a bearing on fiscal situation of the Union and the States.

- First despite India recording highest rate of growth among the nations' overall GDP growth at constant 2011-12 prices has averaged below 7 percent. This growth is likely to persist and there is limited possibility of it accelerating further. The upper bound GDP growth would restrict the growth of resources that would be accessible to the States' and the Union.
- Second post demonetization there has been a significant increase in the number of taxpayers and that has been reflected in increased buoyancy of central taxes. But this could be the uncovered part of economy, continuous sustaining the buoyancy of taxes may be critical.

- Third the sustainable development goals and the commitments with regard to these goals have raised expectations and consequent commitments for resources. Further Government has to take a lead in capital formation in view of nascent growth in private investment. These expenditure commitments require larger resources.
- Fourth the new fiscal consolidation roadmap requires government to be conservative on expenditure front. So, it is razor edge walking.
- Fifth there has been considerable decline in domestic savings from 33.8 percent of GDP in 2011-12 to less than 28 percent recently. Naturally the additional borrowings by the State (the Union and the States) may have the crowding out effect and may need to be judicious.
- Sixthly the States side while GST has a compensation clause for first five years but that has come to an end in halfway of the award period of the Fifteenth Finance Commission. Vulnerability of the States for any revenue shock is now much greater.

Divisible pool and vertical sharing

5.15 There have been continuous changes in the composition of divisible pool in terms of the Union taxes that have been considered for sharing. From a few taxes, the divisible pool now consists of all taxes, excluding cesses and surcharge and the collection costs. Similarly, the share of States has gone up to 41 percent after the recommendation of 15th Finance Commission. There are, however, additional windows of transfer of resources. Transfer of resources through Finance Commissions has five windows: (a) transfer to states as their recommended share from divisible pool of taxes; (b) transfer to local bodies as grants; (c) transfer to States for disaster management and calamity relief; (d) transfer to States to meet their revenue deficit by revenue deficit grants; and (e) transfer to States for their specific needs/programmes in identified sectors. In addition to the transfers through Finance Commission, there have been transfers from Ministries/Departments of the Union for sponsored schemes and programmes of national importance. Overall transfers, therefore, needs to be visualised as inclusive of all the six windows (five windows of the Finance Commission and the additional window of transfers through Ministries/Departments).

Devolution to States from Resources of the Union

5.16 Devolution to States has undergone changes over time based on the requirement of resources by the States. Initially only a few of the Union Taxes were part of the Divisible pool. The Tenth Finance Commission recommended a major change in the size of divisible pool by suggesting that gross receipt of all taxes should be brought under the net of resource sharing. The 80th Amendment to the Constitution gave effect to this recommendation and net receipts from all taxes were brought under the divisible pool. Further the share of the States in the Divisible pool was raised from 29 percent to in FC-X to 42 percent by FC-XIV. FC-XV retained the share of the States at 41 percent and the one percent reduction was as the Jammu & Kashmir had ceased to be State.

5.17 The resource requirements of the States are continuously on increase relative to their own receipts. The adoption of Sustainable Development Goals and the time frame within which these goals are to be achieved has further raised the expectations from the States and their expenditure commitments. The FC-XIV had rightly observed that the Union Finances should be considered as a whole. The compartmentalization of Union Finances not only adds arbitrariness to the distribution, it deliberately excludes certain buoyant sources from being distributed. Therefore, while considering the need for additional resources for the States, there are two options. First, the composition of Divisible Pool could be extended to tax and non-tax receipts of the Gross Revenue Receipt. This would require amendment to the constitution like the 80th Amendment. Second alternative is to raise the share of States in Divisible pool from current 41 percent to 50 percent and above. We suggest the first alternative, which is transparent, unambiguous and allows the States sharing all current receipts of the Government. It is suggested that:

- **Divisible pool should consist of Gross Revenue Receipt of the Union, which will eliminate the issues relating to non-inclusion of cess, surcharge and non-tax revenue.**
- **40 percent of resources in the divisible pool should be earmarked as States' share.**
- **Since moving to GRR requires a Constitutional Amendment of a similar nature as was the 80th Amendment, if considered non feasible, share in taxes should be raised to 50 percent.**
- **Further, there should be a cap on cess, surcharge and collection costs to an extent of 20% of GTR, anything above should get automatically included in the Divisible Pool.**

6. Inter State Sharing of Resources of the Union

In inter se transfer of resources to States, successive Finance Commissions have tried to balance both equity and efficiency considerations. Finance Commissions have followed objective criteria covering the resource needs, resource potential and efforts made in realizing resources by each of the States in determining the inter se allocation of resources. The equity considerations have so far dominated these transfers so far. The 10thFinance Commission, however, included efficiency criteria in terms of tax efforts in the weighting diagram to incentivize the fiscal consolidation initiatives undertaken by the States through their fiscal reform legislations. Next three Finance Commissions continued to assign weights to efficiency parameters in some measure. 14thFinance Commission, notwithstanding a higher overall allocation to States, considered equity and need for inter se allocation. It is, however, important that the resource transfers for each State are appropriately aligned with their resource needs with due consideration for their efforts to tap their potential to an optimal level.

The guiding principle of each Finance Commissions has been to put in place a mechanism for transfer of financial resources in a manner so as to enable each State to maintain financial equilibrium during the period covered by the its award. Each Commission has assessed the resources and expenditure obligation of each tier of Government as mandated by the Constitution on a normative basis so that there are adequate incentives to raise resources and allocate them to schemes and programmes in an optimal manner. As has been correctly put in by the Thirteenth Finance Commission, "Equity and efficiency need not be mutually exclusive and can be embedded into a system of transfer of financial resources"[5].

Box 6.1: Phases in Horizontal Devolution

Horizontal devolution of taxes has been mainly driven by considerations of need, equity and performance. Balancing equity and efficiency is never an easy exercise. Some Finance Commissions have also given due consideration to fiscal disabilities and fiscal discipline in the devolution formula.

Phase 1: From First to Seventh Finance Commission

- Till FC-VII, income tax and Union excise duties were shared using different parameters.
- Income tax was broadly shared using population and tax contribution parameters.
- The FC-III considered equity parameters like relative backwardness, scheduled caste/scheduled tribe (SC/ST) population,
- In the case of distribution of Union excise duty, the FC-VII considerably reduced direct weightage of population and increased weightage of equity parameters, like inverse of per capita income, percentage of poor, etc.

Phase 2: From Eighth to Fourteenth Finance Commission

- FC-VIII to FC-X recommended similar parameters, including equity considerations, for distribution of both income tax and Union excise duties.
- After the Eightieth Amendment to the Constitution, a single sharing formula from the divisible pool of taxes was recommended from FC-XI onwards. Parameters used by earlier Finance Commissions continued in the formulae.
- Weightage for equity parameters increased significantly, with a proportionate decrease in direct weightage for population.

5 Finance Commission Report (Thirteenth Finance Commission)

The FC-X introduced fiscal performance criteria for the first time with 10 percent weight to tax efforts of States. Later, criteria like fiscal discipline and fiscal capacity were used by Finance Commissions.

6.2 There has always competing claims for resources as there has always been a scarcity relative to needs. The criteria used by earlier Finance Commissions for *inter-se d*istribution of tax shares across States could be broadly grouped under the following heads: a) factors reflecting needs, such as population and its composition or infrastructure distance, b) revenue disability measures such as fiscal capacity distance and per-capita income distance from the highest per-capita income or inverse of it, c) cost disability indicators, such as area and d) fiscal efficiency indicators, such as tax effort and fiscal discipline[6]. Relative importance attached to each of these parameters has differed across successive Commissions (Table 6.1), but nearly half of the total tax transfers were based on equity consideration.

Table 6.1: Parameters and their weights in inter se allocation of tax receipts (percent)

Criteria	FC-X	FC-XI	FC-XII	FC-XIII	FC-XIV	FC-XV
Population	20	10	25	25	17.5	15
Income Distance/ fiscal capacity	60	62.5	50	47.5	50	45
Area	5	7.5	10	10	15	15
Infrastructure Index	5	7.5	-	-	-	-
Tax Effort	10	5	7.5	-	-	2.5
Fiscal Discipline	-	7.5	7.5	17.5	-	-
Demographic change	-	-	-	-	10	12.5
Forest Cover	-	-	-	-	7.5	10

Source: Reports of the Finance Commissions

6.3 Higher weights assigned to equity consideration resulted in the allocation getting biased in favour of lower income States, while high and middle-income States suffered a moderation in their share of resources (Table 6.2). The bias in favour of low-income States started with 4th Finance Commission and has persisted since then.

6.4 The transfer system appears to have stabilized by the time of 10th Finance Commission, as the shares of States based on their income category status have nearly remained stable in last 20 years or so. The concept of a special category state was first introduced in 1969 when the 5thFinance Commission sought to provide certain disadvantaged states with preferential treatment in the form of central assistance and tax breaks. Currently there are 11 states which are:

- Hilly and difficult terrain;
- Low population density or sizeable share of tribal population;

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6 Finance Commission Report (14th Finance Commission)- para 8.22

- Strategic location along borders;
- Economic and infrastructural backwardness; and
- Non-viable natures of state finances enjoy special category status.

6.5 These states had other preferential accesses in terms of higher central share for various plan schemes and other plan allocations. 14thFinance Commission, however, did not accord any special treatment to these States and these were treated at par with other States. The 15thFinance Commission continued to follow the same path and did not materially change the inter se allocation with a bias in favour of the low-income States. However, NE States as special category ceased to be treated differentially during the award period of both the 14th and 15th Finance Commission. Besides, a share in Union taxes, States were provided with grants, both schematic and general purpose. It has usually been the approach of the Commissions that the total transfers to a State; by way of tax devolution and grants maintain an upward trajectory both with regard to their GSDP and population.

Table 6.2: Share of the States from divisible pool of Union Taxes (percent)

Year of Comm-ission	Award Period	Special cate-gory states	Low Income states	High Income States	Smaller States (Population less than 1%)	Other States	Sikkim
Ninth	1989-95	16.6	42.8	40.7	12.8	87.2	0.23
Tenth	1995-2000	15.2	43.2	41.6	11.8	88.2	0.31
Eleventh	2000-05	13.5	49.3	37.2	10.6	89.4	0.38
Twelfth	2005-10	14.4	49.4	36.2	11.4	88.6	0.24
Thirteenth	2010-15	12.5	50.9	36.6	9.3	90.7	0.27
Fourteenth	2015-2020	11.5	51.5	36.9	8.6	91.4	0.37
Fifteenth	2020-2026	10.5	53.1	36.4	7.7	92.3	0.39

Special Category States: Arunachal Pradesh, Assam, Himachal Pradesh, Jammu & Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura and Uttarakhand

Low Income States: Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Odisha, Rajasthan and Uttar Pradesh

High Income States: Andhra Pradesh, Goa, Gujarat, Haryana, Karnataka, Kerala, Maharashtra, Punjab, Tamil Nadu, Telengana and West Bengal

Low Population States: All Special category States other than Assam

Inter se allocation of tax transfers among States

6.6 It is felt that equity consideration have been overplayed affecting the transfer of resources to the so called batter off states adversely. While the impact on such transfers on convergence of income or comparable level of services has not been conclusively established, it has certainly affected allocation of resources by these states. It is therefore proposed for consideration of the Finance Commission the criteria, (together with the weights that may be assigned to each of these) that may be adopted for inter-state distribution of resources from the divisible pool, which while being equitable would also be consistent with their needs. The institution and type of transfers could be summarized as follows (Table 6.3).

Table 6.3: Institution and Type of Transfers

Institution and Type of Transfers	Method	Rationale
Finance Commission		
Share in Central Taxes	Formula based	Vertical Equity
Inter State Sharing from Divisible Pool of Central Taxes	Formula based	Vertical & Horizontal Equity
General Purpose Grants	Based on Revenue Deficit	Horizontal Equity
Special Purpose Grants	Discretionary Sector Specific	Merit Goods
Central Ministries/Other Agencies		
Special Purpose Grants	Discretionary Sector Specific	Merit Goods

6.7 The new framework of transfer should satisfy the objective of redistribution and risk sharing in response to shocks and should incentivise better performance by states. What gets returned to the states as their share of the tax base and this can be approximated by nominal GSDP. The State, therefore, proposes a six-bucket approach as indicated below (Table 6.4) for inter-state allocation of resources from the divisible pool and the weights that may be assigned to each of these parameters.

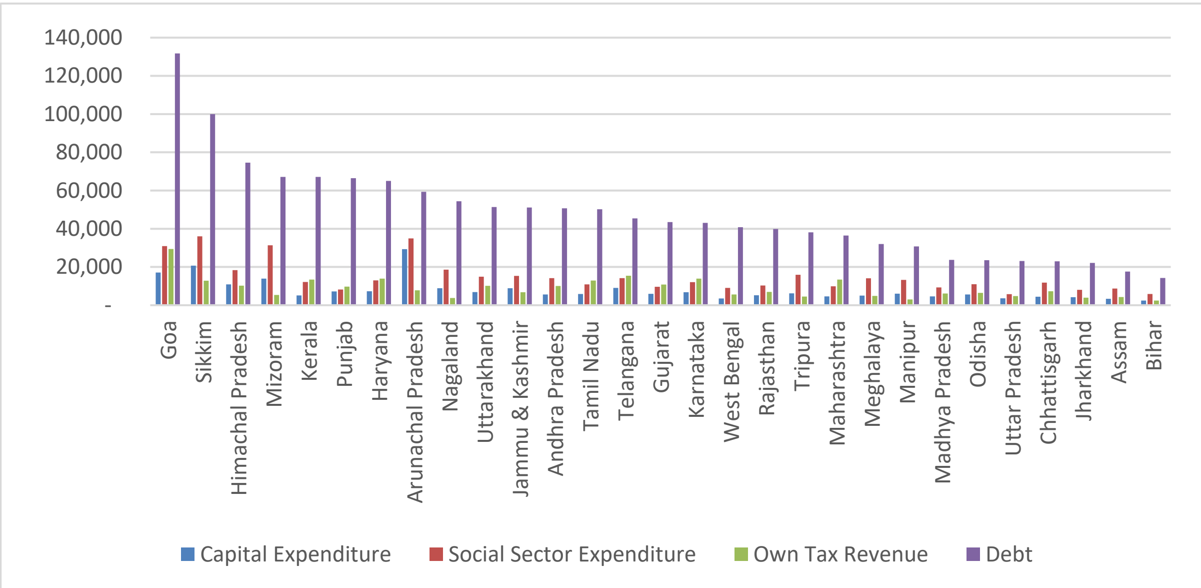
Table 6.4: Interstate distribution of resources from divisible pool

Sl. No.	Parameters of Allocation	Indicators	Weight
1	Fiscal Need	Population	20
2	Fiscal Cost	Area	20
3	Fiscal Capacity	Distance from per capita income	25
4	Fiscal Contribution	GSDP Level	10
5	Economic Performance	SDG	5
6	Revenue Forgone	Area under forests	20

6.8 Fiscal need- Population: Most of the services and programmes which are at the core of a more equitable social order and human resource development are all population centric. Since need refers to the reach or access of administrative, social and economic services to individuals nothing better captures it than the population. Further, besides the needs, the final assessment of outcome also depends on the improvement in the quality of life of the people through an effectively met need. Every Finance Commission has included population as a factor for interstate allocation of resources with varying weights. Until the Seventh Finance Commission, inter-state sharing of the divisible pool was largely decided by the proportion of population in each of the States. The Eleventh Finance Commission had accorded a low weight of 10 percent to population, while increasing the weights to per capita income distance, emphasizing the equity considerations. The weight assigned to population was raised to 25 percent by the Twelfth and Thirteenth Finance Commissions and further to 27.5 percent inclusive of a weight of 12.5percent for demographic changes.

6.9 It is often argued that though population is considered a neutral parameter, there are invariably some economies of scale. In providing civic amenities, health infrastructure and connectivity, larger and more closely settled habitations have lower costs compared to small population which at the time is distributed thinly. The data of the states for parameters such as (a) per capita own tax revenue; (b) per capita capital expenditure; (c) per capita expenditure on social services; and (d) per capita debt for an average of 2015-16 to 2020-21 reveal significant interstate variation and relatively much higher expenditure numbers with smaller population (Fig 6.1). Most of the States with lower population are at the top end with the ratio of expenditure in all the three categories in the range of 1.6 to 5.6 compared to average of all States. Such an argument is in fact similar to the cost disabilities arising on account of area, where successive Finance Commissions have gone by a threshold minimum weight. We suggest that given the economies of scale and lower cost in providing civic amenities and other services to a relatively larger concentrated group, a minimum of 1 as weightage be accorded to smaller states. Overall weight of population may be kept at 20 percent with less populated States with population share of less than 1 percent being allocated minimum 1 percent and rest proportionately allocated according to size of population.

Fig 6.1: Per Capita expenditure (Capital, Social services) OTR &Liabilities (Rupees)



Source: Calculation based on RBI- Hand Book of States, 2023

6.10 Fiscal cost- Area: The Tenth Finance Commission for the first time added area as a criterion for inter-state distribution of resources. Together with population, area (or dispersal of population) determines the quantum and cost of delivery of services/infrastructure. The weight assigned to this criterion was increased to 7.5 percent by the 11 Finance Commission, to 10 percent by 12 and 13 Finance Commission and further to 15 percent by 14 and 15 Finance Commission. But the Commissions assigned a minimum 2 percent share to each State because they viewed that "even the smaller States may have to incur certain minimum costs in establishing the framework of governmental machinery."[7] Accordingly 12 States (Goa, Haryana, Himachal Pradesh, Kerala, Manipur, Mizoram, Nagaland, Punjab, Sikkim, Tripura and Uttarakhand with 10.6 percent of area were allocated a share of 24 percent) were assigned 2 percent minimum share, resulting in a proportionate reduction in the share of other States. We suggest continuing with the approach as adopted by earlier Commissions and as suggested above. We suggest that a weight of 25 percent may be assigned to area of a State without the threshold minimum as has been done earlier.

6.11 **Fiscal contribution- level of Gross State Domestic Product:** Fiscal contribution has so far not been considered for interstate allocation of resources from divisible pool. Many States have suggested tax collections as an indicator to capture the contribution of a State to the national kitty of resources. However, since tax collections, particularly on corporate taxes, occur at head offices of the corporate houses located in large metropolises, it has been found to be a weak indicator. But this is universal as other central taxes also have the bias of bigger cities. GSDP, however, could be considered as a better proxy indicator. GDP is the most appropriate base and scalar of taxes and sum total of States GSDP is the national GDP. Being value added there is no danger of double counting and any metropolises bias. Like other indicators used for interstate distribution, such as population, area, forest cover, per capita GSDP or consumption, all of these are only proxy indicators of fiscal need, fiscal cost and fiscal capacity. In view of this, it is important that contribution to national kitty is both recognised and rewarded. We, therefore, propose that 16th Finance Commission should consider the levels of GSDP of a state as an indicator for the fiscal contribution and include it as one of the criteria for interstate distribution of resources from central pool. We propose that fiscal contribution may be assigned a weight of 10 percent in interstate allocation of resources.

6.12 **Fiscal capacity-** Fiscal capacity has been the single most important criteria for inter se allocation of resources. There could be three possible potions for measuring fiscal capacity, the per capita GSDP, the per capita consumption and poverty. The per capita Gross State Domestic Product (GSDP) has so far been used as a proxy for tax base and the relative distance used in determining the fiscal capacity of the State. But as was rightly observed by the Twelfth Finance Commission "GSDP is an indicator of the domestic product and not of income or consumption" and it is also not a "perfect correlate of fiscal capacity"[8]. Further, per capita GSDP is an average, which is influenced by the income of the outlier net-worth individuals. Moreover, GSDP, as is being assessed currently, is based on the concept of "income originating" and not "income accruing" while the taxable capacity in destination-based commodity taxes is better captured by the latter.

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7 Finance Commission Report (Twelfth Finance Commission), para 7.30

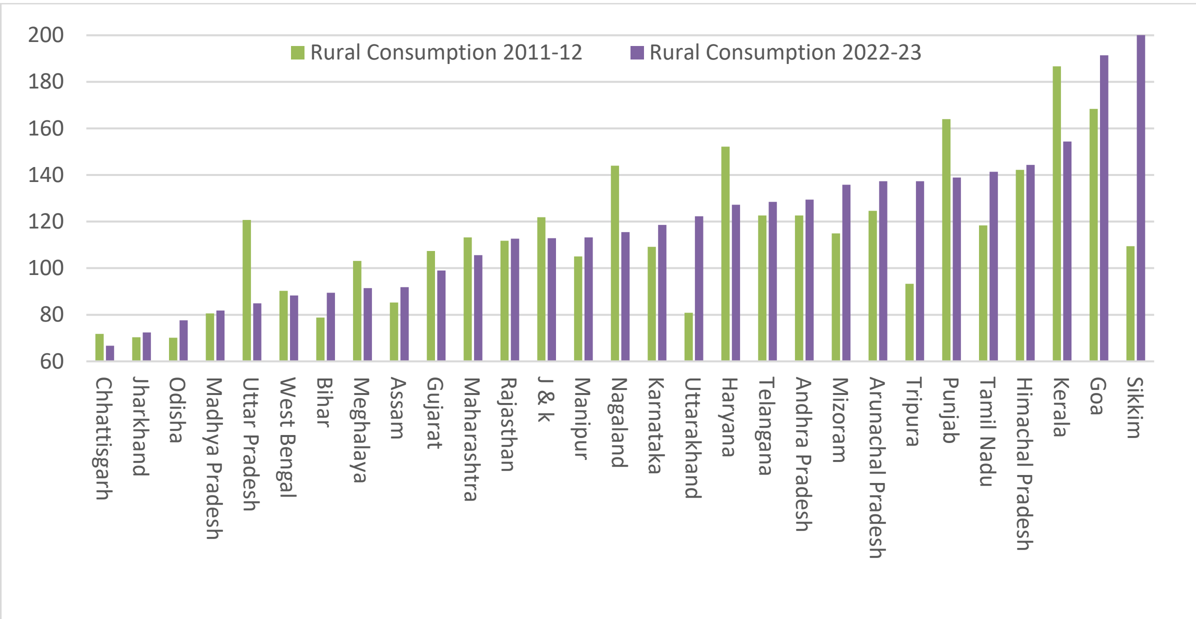
8 Finance Commission Report (Twelfth Finance Commission), para 2.11

6.13 Fourteenth Finance Commission also admitted per capita GSDP as a poor proxy and stated that the relationship between income and tax is nonlinear as the consumption differs between high, middle and low income states. Since bulk of the revenue from State taxes accrues from destination-based GST, it better represents fiscal capacity. While fiscal capacity needs to be considered in interstate transfers, it may not be appropriate to use distance of per capita GSDP from the highest per capita GSDP as it is a poor proxy base consumption is a better proxy.

Interstate comparison of urban and rural consumption

6.14 There have been significant interstate variations in per capita consumption and these variations have continued to persist at almost same levels in 2011-12 and 2022-23. For the rural consumption, the ratio of lowest per capita consumption to highest per capita consumption in 2011-12 was observed to be 0.43 (between Chhattisgarh and Goa), which declined to 0.33 (between Chhattisgarh and Sikkim) in 2022-23 indicating to that extent worsening of the gap between best and the lowest State. The un-weighted coefficient of variation of rural consumption was 30 percent and 20 percent respectively in 2011-12 and 2022-23 indicating somewhat moderation in dispersion and middle-income States sustaining range bound growth. The interstate variations across states for rural consumption is captured in Fig6.2 below which gives the ratio of the per capita consumption of a State relative to all-India average in 2011-12 and 2022-23. It is observed that the ratio in States like Chhattisgarh, Jharkhand, Odisha, Madhya Pradesh, Uttar Pradesh, West Bengal, Bihar, Meghalaya, Assam and Gujarat has been below the all-India average consumption.

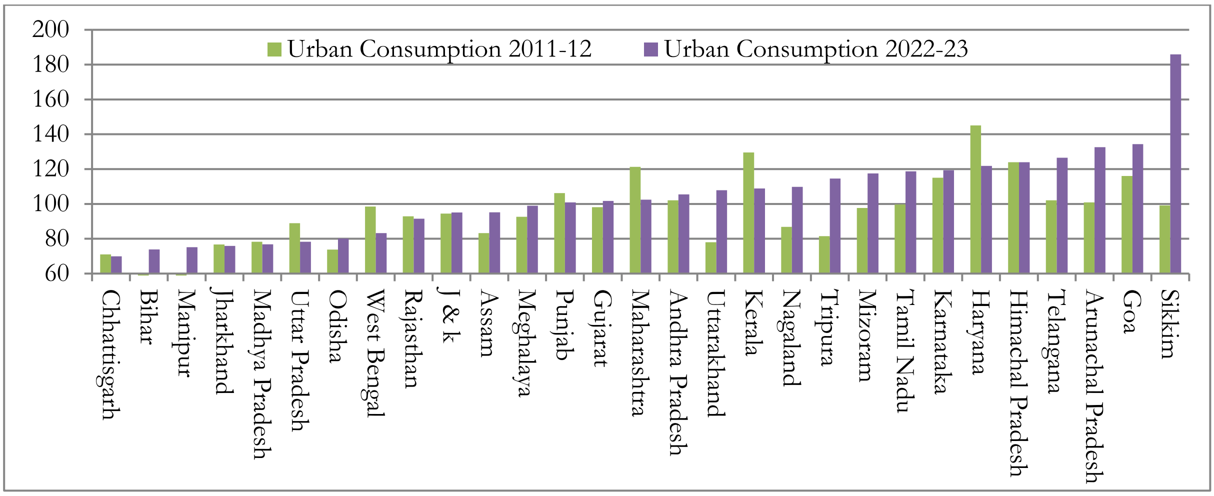
Fig6.2: Ratio of Rural per capita Consumption with All-India average (in percent)



Source: MOSPI- NSSO Surveys on Consumption expenditure

6.15 There has been a bunching of States in the middle with Karnataka, Uttarakhand, Haryana, Telengana, Andhra Pradesh, Mizoram, Arunachal Pradesh, Tripura, Punjab, Tamil Nadu and Himachal Pradesh having per capita consumption above national average but with-in range of 120-150 percent of All India level. Kerala, Goa and Sikkim have had consumption significantly above the all-India level with Sikkim recording a highest increase between 2011-2023. On lower side, West Bengal and Gujarat are a surprise while Rajasthan, considered part of the BIMARU states, having per capita consumption 30-50 percent above the poorest States as an upside surprise. The interstate differences in urban consumption have been of a similar magnitude (Figure 6.3).

Fig 6.3: Ratio of Rural per capita Consumption with All-India average (in percent)



Source: MOSPI- NSSO Surveys on Consumption expenditure

6.16 The ratio of the State with lowest per capita consumption and the state with highest per capita consumption during 2011-12 and 2022-23 was 0.4 (between Haryana and Bihar in 2011-12 and between Chhattisgarh and Sikkim in 2022-23. The un-weighted coefficient of variation of interstate consumption was 20 and 25 percent during 2011-12 and 2022-23, respectively indicating a relatively lower dispersion compared to interstate rural consumption. The interstate differences clearly reveal that urban poverty has hardly shown improvement in several States. The bottom 7 position during 2011-12 and 2012-13 continues to be occupied by Chhatisgarh, Bihar, Manipur, Jharkhand, Madhya Pradesh, Uttar Pradesh and Odisha.

Multi-level Poverty

6.17 Multilevel poverty goes beyond the traditional concept of poverty line and consumption below a specified level. Multilevel Poverty Index (MPI) comprises three parameters of health, education and living standards, each with an equal weight. MPI is based on 10 parameters as indicated below and each indicator is linked to a Sustainable Development Goal.

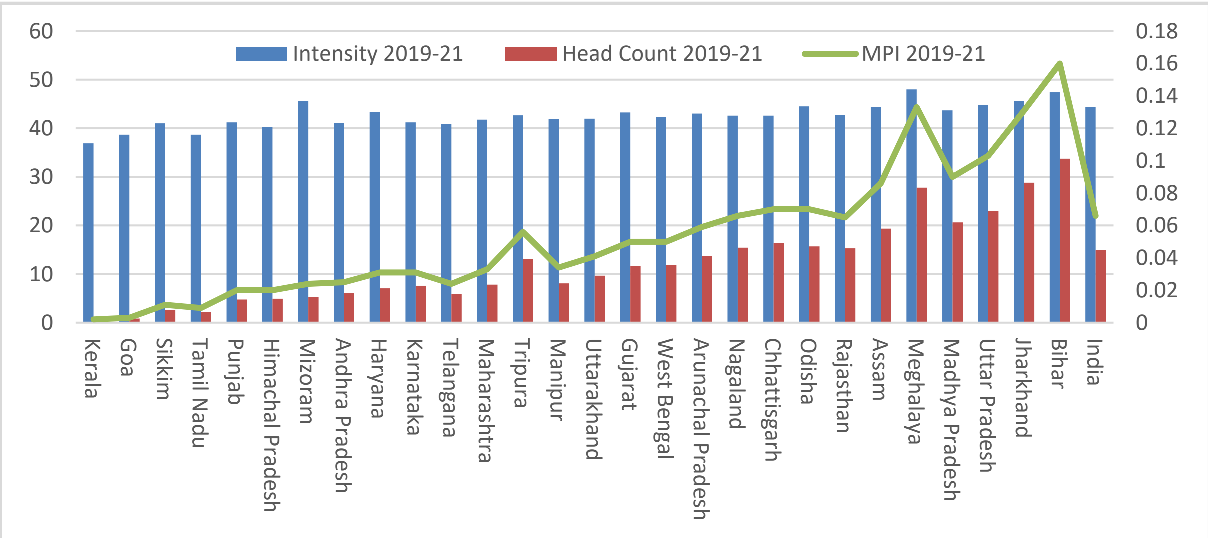
Table 6.5: Multi Level Poverty, Components of Index and their Weights

Sector	Parameter	Indicator	Weight	SDG
Health	Nutrition	Any person under 70 years of age for whom there is nutritional information is undernourished.	1/6	SDG 2
	Child mortality	Any child has died in the family in the five-year period preceding the survey.	1/6	SDG 3
Education	Years of schooling	No household member aged 10 years or older has completed six years of schooling.	1/6	SDG 4

	School attendance	Any school-aged child is not attending school up to the age at which he/she would complete class 8.	1/6	SDG 4
Living Standards	Cooking fuel	The household cooks with dung, wood, or charcoal.	1/18	SDG 7
	Sanitation	The household's sanitation facility is not improved (according to SDG guidelines) or it is improved but shared with other households	1/18	SDG 11
	Drinking water	The household does not have access to improved drinking water (according to SDG guidelines) or safe drinking water is at least a 30-minute walk from home, roundtrip	1/18	SDG 6
	Electricity	The household has no electricity.	1/18	SDG 7
	Housing	The household has inadequate housing: the floor is of natural materials or the roof or wall are of rudimentary materials.	1/18	SDG 11
	Assets	The household does not own more than one of these assets: radio, TV, telephone, computer, animal cart, bicycle, motorbike, or refrigerator, and does not own a car or truck.	1/18	SDG 1

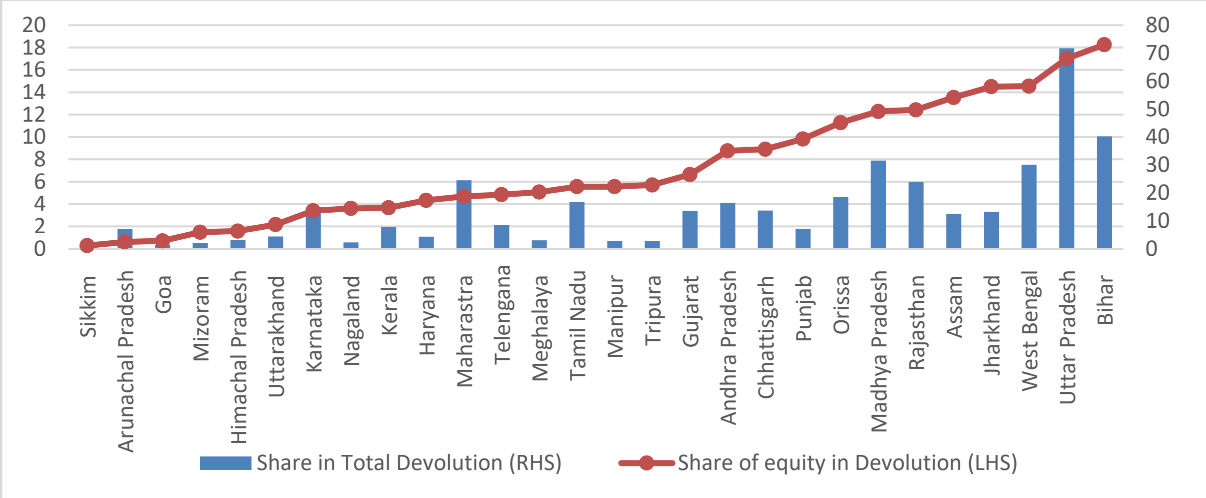
6.18 UNDP and Oxford University have been collaborating to produce MPI and an index for the States of India for 2006 ,2016, 2019 and 2021 and 2021 MPI have since been released (Fig 6.4). As per the Report, Sikkim has done relatively much better in both having a lower MPI (next only to Goa) and a sharp reduction in head count ratio in the decade between 2006 and 2021.

Fig 6.4 Multi Poverty Index & Head Count and Intensity Ratio



6.19 Fifteenth Finance Commission assigned a weight of 45 percent to equity measured in terms of distance in per capita income. While higher weights assigned to it raised the share of many States' in divisible, its contribution to overall increase in their share was disproportionate (Fig 6.5). While weights assigned to equity contributed to over 50 percent of their share in divisible for States like Rajasthan, Assam, Jharkhand, West Bengal, Uttar Pradesh and Bihar, its contribution in case of Karnataka was just 13 percent. While the contribution of equity to overall divisible pool was much small for States' with lower area as these were protected due to an assignment of a threshold minimum allocation of 2 percent for area.

Fig 6.5: Share of States' in devolution and share of equity in such devolution



Source: Calculation based on FC-XV Report

6.20 Of the three alternatives of measuring fiscal capacity we continue to support the per capita GSDP for the following reasons. First, the per capita consumption expenditure does not have a regularity of availability. The 2022-23 data have been released after 11 years and for further release there is no certainty. Second, in MPI, the head count poverty numbers are of 2011-12 vintage and other considerations or parameters are from Sustainable Development Goals, which in itself could be a performance parameter. Thirdly, even with destination-based taxation, the income becomes the core as expenditure could be made out of income alone. In view of this, we propose a weight of 25 percent to per capita GSDP difference as has been the practice with earlier Commissions.

6.21 **Revenue forgone:** Fifteenth Finance Commission had allocated a weight of 10 percent to forest area for sustaining economy and as revenue forgone. These continue to be important parameters and we recommend continuation of retaining forests as part of revenue forgone by the State in supporting ecology. With worsening weather conditions and Air Quality Index reaching dangerous levels, forest cover should be incentivized. We, therefore, consider allocating a higher weight of 20 percent to be assigned to forests.

6.22 **Performance** has usually not been assigned any weight in interstate distribution. Earlier, however, there was no single proxy variable for assigning any weights to performance. We had tried with fiscal health, Tax/GSDP and improvements in tax/GSDP as the fiscal performance parameters. But the actual performance which is citizen centric and all-encompassing can now by visualized in terms of Sustainable Development Goals and composite score of the State. Niti Aayog has continuously been releasing the SDG dash Board and SDG data for over 100 parameters spread over the internationally accepted 17 goals. Each country and each State in India has adopted SDG as new development paradigm. Further, data is generated independently by the Niti Aayog and has no State specific bias in compilation. In view of this, we suggest SDGs to be taken as one of the criteria and overall SDG Index may be included in interstate distribution with Composite SDG rank and score as the parameter with a weight of 5 percent.

6.23 In brief, therefore, weights would be 20 percent each for population and area representing fiscal need; 25 percent as equity with distance from the highest per capita income, adjusted for smaller States of Goa and Sikkim as fiscal capacity; a weight of 10 percent to GSDP of the State as the proxy for fiscal contribution at national level and weights of 5 percent SDG and 20 percent as weight to revenue forgone. While the terms of reference of 15th Finance Commission mandated it to use population figures of 2011 census wherever population is a factor for determination of devolution of taxes, duties and grants-in-aid. This was a welcome departure because 1971 population is dated and 14th Finance Commission clearly indicated it being unfair[9]. There are no such restrictions on 16thFinance Commission and 2011 population may continue to be used as normaliser and as weights wherever it is necessary. The broad rational of the criteria proposed is as under:

Population- Specific fiscal need and administration and services availability is to reach all individuals, but Population is not neutral as suggested, there are economies of scale. A minimum of 1 weight should be accorded to smaller states with low population because of indivisibility

Area- Area and elevation have significant bearing on cost. Twelfth Finance Commission on wards have recognised and allocated a minimum weight of 2 to each State.

GSDP Level- The only indicator of level of progress and the contribution to Nation in terms of prosperity and State Resources.

Forest Cover- Indicates revenue forgone because area is kept under forest cover and not economically exploitable.

Per Capita Income Distance- Indicator of Fiscal Capacity and ability of State to mobilise resources- Though a poor proxy but no alternatives.

Performance- SDG, new policy paradigm and covers all development parameters- data centrally available.

6.24 Based on the criteria proposed and weights assigned for State wise share for each criteria is indicated in Annex Tables. The share of Sikkim is indicated below:

S. No	Criteria	Share @ 100 %	Weight	Share of Sikkim
1	Population	1.0	20	0.2000
2	Area	2.0	20	0.4000
3	Income Distance	0.010	25	0.0025
4	GSDP Level	0.167	10	0.0167
5	Forest Cover	0.490	20	0.0980
6	SDGs	0.056	5	0.0028
	Total		**100**	**0.7200**

9 Finance Commission Report (14 Finance Commission), para 8.25

7. Local Bodies

Local bodies have emerged as the third tier of Government and critical players in the new development approach which lays emphasis on citizen centric initiatives. With functions and finances assigned to local bodies, these have become truly effective and can meet the aspirations of the people. These institutions can better articulate the requirements at the lowest level of administration and can ensure administrative set up reaching the last mile and last men. These initiatives can eliminate the road side bias and the bias of nearness which had earlier affected the benefits reaching the last person. No one needs to be left behind, this is the new motto and local bodies strengthened and empowered can help achieve this.

Panchayats have been the fulcrum of local self-government since ancient times, exercising both executive and judicial powers over village-level issues ranging from land distribution and tax collection to disputes. However, they were not part of the formal government structure. The framers of the Constitution recognised the need to empower panchayats for the development of rural areas and Article 40 of the Directive Principles of State Policy specified that "The State shall take steps to organise village panchayats and endow them with such powers and authority as may be necessary to enable them to function as units of self-government." Since what are described in popular parlance as the urban local bodies and rural local bodies constitute local self-government in the Constitutional sense, the chapter's title is "Empowering Local Government."

Box 7.1: Finance Commission Recommendations on Local Bodies

The FC-X stipulated that State Governments should prepare suitable schemes and issue detailed guidelines for the utilisation of grants. The local governments were required to raise matching contributions for this purpose. No grant amount was to be used for expenditure on salaries and wages.

The FC-XI made it clear that the first charge on the grants should be maintenance of accounts and audit, followed by the development of a financial database. The remaining amounts were to be utilised for maintenance of core services like provision of primary education, primary health care, safe drinking water, street lighting and sanitation, maintenance of cremation and burial grounds, public conveniences and other common property. These grants were untied, barring the stipulation prohibiting the payment of salaries and wages.

The FC-XII recommended that panchayats should use the grants to improve service delivery relating to water supply and sanitation. The rural and urban local bodies were also expected to give high priority to expenditure for the creation of databases on their finances and maintenance of accounts through the use of modern technology and management systems.

The FC-XIII stipulated six conditions for rural local bodies and nine conditions for urban local bodies to access the performance grant. All these conditions had to be met in each of the award years. A special area grant was provided for the areas excluded from Part IX and IX-A of the Constitution. This grant had two components – a special area basic grant and a special area performance grant. Four conditions had to be met to avail of the latter. In case States were unable to draw their performance grant, the amount not drawn was to be redistributed in a specified manner.

FC-XIV recommended grants in two parts – an unconditional basic grant and a conditional performance grant. For duly constituted gram panchayats, the ratio between the unconditional basic grant and conditional performance grant was 90:10 and for municipalities the ratio was 80:20. The basic grant was intended to be used to improve the status of specified basic civic services. The performance grant was based on revenue improvement, with the criteria (including the quantum of incentive to be given) left to be determined by State Governments. In order to be eligible for performance grants, the local governments would have to show an increase in own source of revenue and also submit audited annual accounts. Municipalities, in addition, had to publish the service level benchmarks relating to basic urban services each year.

FC XV also recommended grants to local bodies and keeping in mind the massive pandemic during 2019-21, it provided special grants for health care facilities including facilities at the primary level. The Commission has said that they recommend total grants for duly constituted local governments that add up to Rs. 436,361 crore for the period 2021-26. They favoured a fixed amount rather than a proportion of the divisible pool of taxes to ensure greater predictability of the quantum and timing of fund flow.

7.2 Criteria adopted by the different Finance Commissions for distribution of lump sum grant allocated to Rural and Urban Local bodies and the parameters followed including their weights is indicated below:

Table 7.1: Criteria for interstate sharing of grants to local bodies and weights *(percent)*

Criteria	11th FC	12th FC	13th FC	14th FC	15th FC
Population	40	40	50	90	90
Area	10	10	10	10	10
Distance from highest per capita income- sectoral income	20	20	10 and 20#	-	-
Index of deprivation$	-	10	-	-	-
Revenue effort	10	20			
Index of decentralization/devolution	20	-	15	-	-
SC/ST population	-	-	10	-	-
FC Local body grant utilization index	-	-	5	-	-

$- Constructed on the basis of intra-state disparities in the availability of drinking water and sanitation services/facilities. #-Weights assigned to distance from highest sectoral income for PRIs is 10 percent and for ULBs 20 percent

7.3 Total transfers as recommended by the Fifteenth Finance Commission are summarized in Table 7.2 below.

Table 7.2: Transfers to Rural and Urban Local Bodies (Rs crore)

Item	2021-22	2022-23	2023-24	2024-25	2025-26	TOTAL
Total Grants to RLBs and ULBs	80,207	82,613	85,091	89,997	90,003	427,911
Primary Health Centres	13,192	13,192	13,851	14,544	15,272	70,051
Basic Grant	67,015	69,421	71,240	75,453	74,731	357,860
RLBs	44,901	46,513	47,018	49,800	48,573	236,805
ULBs	22,114	22,908	24,222	25,653	26,158	121,055
Incubation of new cities	-	2,000	2,000	2,000	2,000	8,000
Total	80,297	84,703	87,181	92,087	92,093	436,361

Source: Fifteenth Finance Commission

7.4 The Fifteenth Finance Commission has reportedly followed nine guiding principles for allocation to local bodies as indicated below:

Box 7.2 Nine Guiding Principles of Local Body Grants adopted by FC-XV

The nine guiding principles that run as a common theme across FC XV recommendations for the local governments are:

i. Relevant ToR and the Constitutional provisions.

ii. Pre-requisite of timely online availability in the public domain of both the accounts of the previous year and audited accounts of the year before the previous year for availing of grants for both rural and urban local bodies.

iii. Pre-requisite of notifying minimum floor on property tax rates by States in order to increase the buoyancy of revenue of urban local bodies.

iv. Inclusive and uniform approach for all three tiers within rural local bodies, Excluded Areas and cantonment areas.

v. Inter se rural and urban share of devolution in the context of the evolving urban complexities and challenges.

vi. Differential needs of urban habitations, including the special needs of emerging large urban areas as "agglomeration economies".

vii. Air pollution in Million-Plus urban agglomerations.

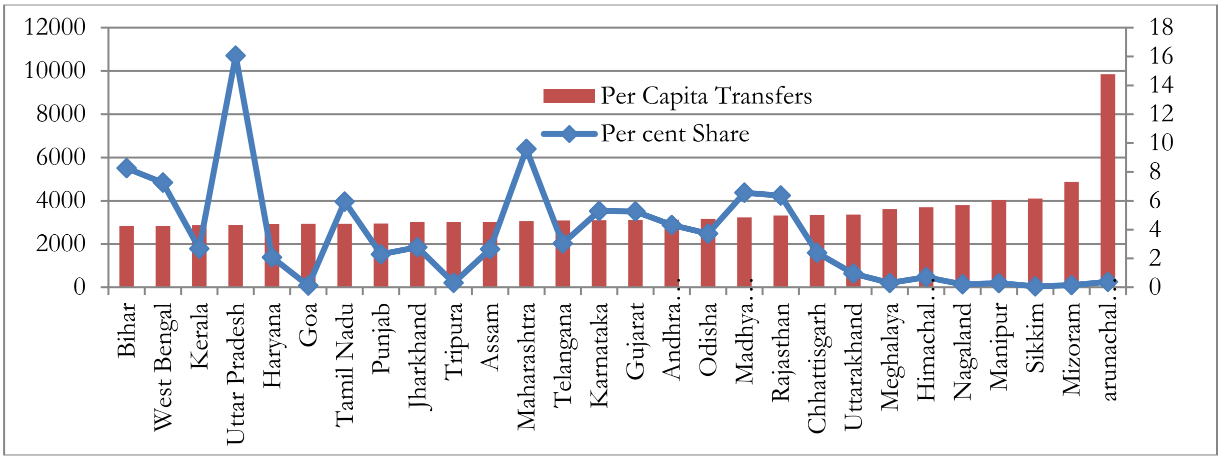
viii. Focus on national priorities related to (a) strengthening of primary health care and creation of diagnostics infrastructure for management of disease and epidemics at the local level; (b) solid waste management; (c) provisioning for drinking water and sanitation; and (d) promoting and incentivising water recycling, rejuvenation and rainwater harvesting.

ix. Importance of generation of internal resources like revenues from property taxation and tax on professions.

Source: FC-FV Report

7.5 Per capita grant and the State wise share in grants are summarized in fig 7.1 below. Except of Arunachal Pradesh, per capita grant to local bodies is range bound. The average per capita transfer to the State has been Rs. 3054 and per capita transfers excluding Arunachal Pradesh have varies between Rs. 2837 for Bihar and Rs. 4876 for Mizoram. NE states in general have high per capita transfers because of some weights being assigned to area and these are sparsely populated States.

Fig 7.1: Per capita grant (Rs) and share of States percent



Source: Calculation based on FC-XV Report

7.6 Sikkim has already approved the recommendations of the State Finance Commission for allocation of resources from the State to these constitutional institutions. The broad recommendations of the State Finance Commission as summarized are given in Box 7.3 below

Box 7.3: Recommendations of the Sikkim State Finance Commission and accepted by the State Government

- 6% of the Net Own Tax Revenue should be devolved every year for the Local Bodies in Sikkim.
- Out of the recommended devolution of 6% of the NOTR, 5% should be devolved directly to the PRIs and the ULBs as Grants. The remaining 1% of the NOTR should be allocated to different State Level Initiatives to strengthen the functioning of Local Bodies in Sikkim.
- Every Gram Panchayat and every ULB in Sikkim should receive the Minimum Assured Grant (MAG) every year during 2025-30. Each Gram Panchayat of Sikkim should receive Rs. 6 Lakhs per annum as Minimum Assured Grant and each ULB should receive Minimum Assured Grants at the rate of Rs. 50 Lakhs per ULB per annum.
- The Minimum Assured Grant should be secured first. The divisible pool for devolution to PRIs and the ULBs will be derived after subtracting the Total of MAGs from the recommended Total Devolution to the PRIs and the ULBs.
- Divisible Pool should be distributed between the PRIs and the ULBs in ratio of 75% to 25%. The proportion of suggested distribution approximately conforms to the proportion of rural and urban population in Sikkim. Out of the total devolution, 70% should be allocated to the Gram Panchayats and 30 % to the Zilla Panchayats.
- To determine the quantum of devolution to individual local bodies, we recommend 90% weightage for population (2011 Census) and 10% weightage to the geographical area of the Local Body (Gram Panchayat or Zilla Panchayat or Urban Local Body).
- The amount devolved to the individual GPs, the ZPs and the ULBs after deduction of MAG shall be divided into 80% as Basic Grants and 20% as Performance Grant.
- The Basic Grant for the year 2025-26 should be released to all GPs, ZPs and ULBs without any condition. From the year 2026-27 to 2029-30, the Basic Grants should be released to only those local bodies who have submitted the utilization certificate for the expenses related to the preceding financial year.
- Release of the performance grant to the local bodies will depend on their performances in terms of regular audit, improvement in Own Source Revenue (OSR) mobilization and prioritizing expenses for achieving the SDGs in their geographical jurisdictions.
- 0.5% of the NOTR should be allocated every year for the State Capacity Building Fund. 60% of this fund should be allocated for the Rural Local Bodies and 40% for the Urban Local Bodies. This Fund should be managed by the Rural Development Department for the PRIs and Urban Development Department for the ULBs.
- 0.5% of NOTR per year minus Operational cost of the SFC Cell per year) for creation and management of the Infrastructure Grant at the State Level.
- The Commissioner, Commercial tax should coordinate with the Secretaries of Rural and Urban Development Departments to evolve an institutional relationship between Commercial Tax Department and the Local Bodies to develop updated data bank for commercial enterprises (in Panchayats and in ULBs). The Commercial Tax department should take the lead in developing an appropriate data format and orient the Local Bodies to collect and update the data on commercial enterprises in their areas.
- The Commission agrees with 15thFinance Commission recommendation for increasing the profession tax limit from Rs. 2500, which has been in force for almost 35 years, to Rs. 18000 per annum.
- RDD should prepare a set of Building Bye Laws to regulate the construction activities in rural areas in consultation with UDD. A defined processes and frame work should be put in place which will also augment the OSR of PRIs through collection of various fees related to the construction activities. For this purpose, the fund under SCBF could be utilized subject to a maximum of Rs. 7.50 lakhs per year.
- The Commission recommends that the Directorate of Local Fund Audit should further strengthen the statutory audit process by ensuring the audit of all Local Bodies in Sikkim.
- All local bodies should voluntarily undertake the social audit of expenses incurred by them during a financial year. The social audit strengthens the participation of people and catalyzes the enhanced support to efforts of local bodies in delivering the required services.

7.7 The financial details derived from sampling of GPUs have been shown in the Table 7.3 below. The analysis of the financial data has brought forth the following observations:

- High percentage of Unspent cash balances were seen which points to the fact that the spending capacity of the GPUs have not been appropriately augmented.
- Administrative Expenses very high with average of 84% per year. GPUs need to curb administrative expenses and increase OSR.
- General trend of poor OSR collection– as stated earlier in the report, all GPUs need to pay extra attention to boost their OSR
- Bank Interest receipts from 35.63% of total OSR collection on an average - Signifies that Central/State transfers are retained in the bank accounts for a longer period of time without utilization and such interest receipts are utilized to fund their administrative expenses. Such trend is unsustainable and defeats the very purpose of fund transfers.

Table 7.3: Performance of Rural and Urban Local Bodies (Rs in Lakhs)

Item	2015-16	2016-17	2017-18	2018-19	2019-20
Rural Local Bodies					
Total Receipt	5428.18	5741.61	4382.55	4686.61	2790.34
Opening Balance	873.99	1148.92	1307.02	1364.75	1617.27
Grants	5328.57	5650.55	4271.51	4546.77	2640.08
Own Resources	99.61	91.06	111.04	139.84	150.26
Administrative Expenses	4093.79	4265.3	3991.15	3955.82	2253.02
Work Related Expenses	1035.72	1302	307.74	445.95	357.94
Fixed Assets Purchases	22	14.75	25.44	31.04	53.75
Total Expenditure	5151.51	5582.05	4324.33	4432.81	2664.71
Closing Balance	1150.66	1308.48	1365.24	1618.55	1742.9
Urban Local Bodies					
Opening Balance	340.69	584.21	104.34	1584.57	1578
Own Resources	552.53	710.44	1171.53	1041.64	1206.44
Total Receipt	1663.33	1936.38	2494.09	2635.37	2150.91
Expenditure	548.09	558.19	839.18	1002.96	978.41
Liabilities	151.36	470.16	1084.62	341.75	636.12
Assets	1023.08	1428.22	2159.3	1980.73	1916.75
Closing Balance	584.21	1004.34	1584.57	1578	1469.87

Source: Report of the State Finance Commission

Criteria to be followed for allocation of grants to local bodies

7.8 Local bodies are important intermediaries between the citizens and the State not only that they are near to them but they understand their problems much better and citizens can articulate their aspiration more openly. The resource flow should therefore be augmented. We suggest that instead to a lump sum allocation with a normal annual increase, their allocation should be linked to the buoyant source. Like the SFC recommendations, we suggest that 5 percent of gross revenue should be earmarked to the local bodies as grants and 90 percent of these grants should not have any conditions attached. The Fifteenth Finance Commission has allocated these grants in three buckets. First one was untied but linked to some mandatory conditions relating to accounts and audit being full filled. The other two grants of 30 percent were for waste management & sanitation and water supply. None of the grants were to be spent on salary and establishment but on service delivery and service augmentation. While these conditions were not severe and manageable, a large number of RLBs and even ULBs were not able to adhere to these guidelines resulting in double disadvantages, more particular in terms of squeezing of funds. If a condition is to imposed it should be by the State through which the flow of resources might be routed.

7.9 The criteria to be followed should be population (80 percent weight) and area (20 percent weight). We suggest that the weights assigned should follow the same principle as in horizontal interstate transfer with a minimum threshold of 2 because the cost disadvantage on account of density and elevation is same for a State and also the local bodies within the State and a minimum threshold of 1 for population on account of economies of scale. As proposed above, the entire amount of grant should be untied. However, Finance Commission may suggest a bouquet of incentives and penalties, which a State may consider for adoption. It may also consider setting a limit of grants that needs to be linked to such incentives.

8. Disaster Management- Losses of the National Disaster in Sikkim

Successive Finance Commissions have followed an expenditure-based approach to determine the allocation of funds for disaster management to State Governments. In a significant departure from the past, in our Report for the Year 2020-21, we had recommended a new methodology, which is a combination of capacity (as reflected through past expenditure), risk exposure (area and population) and hazard and vulnerability (disaster risk index) for determining State-wise allocation for disaster management. This shall be continued for the five-year award period from 2021-22 to 2025-26 also. Similarly, we have recommended continuation of mitigation funds at both the Union and State levels – National Disaster Mitigation Fund (NDMF) and State Disaster Mitigation Funds – to aid the implementation of mitigation measures in States for the award period, as provided in the Disaster Management Act, 2005. The six types of earmarked allocations within the overall allocation of National Disaster Response Fund and NDMF shall also continue in order to address certain priorities related to preparedness, mitigation and recovery through special initiatives.

In less than 12 years, Sikkim has suffered two massive disasters disrupting lives and livelihood opportunities of the people of the State. In September 18, 2011, Sikkim suffered a massive earthquake of a magnitude of 6.9 on a Richter Scale, which resulted in complete wipeout of infrastructure in the State. The overall loss was estimated at Rs. 7425 crore, equal to 67 percent of the GSDP of the State in 2011-12. In October 4, 2023, just 12 years after the earthquake, Sikkim witnessed a massive tragedy with bursting of the perimeter of the Lake Lhonak, releasing a huge amount of water to the River Teesta. The river's water level increased by 15-20 feet and destroyed the Chungthang Dam, the largest dam in Sikkim, producing 1,200MW of electricity. The Teesta III Hydro Power Project in Sikkim, built at a cost of Rs 13,965 crore, became defunct following the flash floods. The power project was commissioned in February 2017 and it was only in 2022 that it started making profit, generating more power than the capacity, because of heavy flow of water. Sikkim government had 60 percent share in the project.

8.2 Besides the energy sector, there has been extensive damage and loss of public infrastructure particularly in sectors such as transportation infrastructure comprising of roads and highway networks, bridges, tunnels, culverts, retaining walls; water management infrastructure comprising of drinking water supply, drainage systems and flood control systems; governance infrastructure of government offices along with residential buildings; social infrastructure including the health care system, education and research system; economic infrastructure comprising of marketing hubs, manufacturing centers; and private assets in terms of dwelling units, agricultural land, animal husbandry, tourists centres, boarding and lodging joints and others. The total loss is estimated to be over Rs. 25,000 crore (including Teesta III), which is nearly 60 percent of the GSDP of the State during 2022-23. Departments have separately been working out the details of losses in their administrative set ups. Keeping in view the massive loss of infrastructure and livelihood opportunities and that the revival of economy and resurgence of trust in people within and those intend to visit the State will take some time, a proper reconstruction and redevelopment needs to be designed so that the State reaches the pre-disaster levels. The current post disaster reconstruction is even more important because economy has just been showing signs of revival after below par performance during the pandemic year of 2020-21 and 2021-22, with GSDP growth averaging a little over 3 percent in these two years.

8.3 Besides the deaths, displacements and all-round damages and devastations triggered by this flash flood in Teesta on the intervening night of 3-4 October 2023, the massive destruction and disruptions occurred on the main single national highways, state highways and bridges and feeder roads. No economic and commercial activities took place for at least a fortnight. It affected the all other intermediate and secondary activities in industries, agriculture, tourism, education, health, sales and services.

8.4 The estimated cost of this disruption on the State's GDP has been calculated at Rs 120 crore per day i.e. Rs 1800 crore in just a fortnight of this disconnection and disruption. The tourism sector alone has lost approximately Rs 1440 crore to Rs 2160 crore this crucial season (October-December).The reconstruction of the Sikkim should be with the approach "build back better" with solution comprising technically sound, financially viable, environmentally sustainable, disaster resilient and acceptable to community. The broad reconstruction strategy is outlined in the box below:

Box: 8.1 RECONSTRUCTION STRATEGY

SOCIAL SECTOR	PRODUCTION SECTORS	INFRASTRUCTURE	ENVIRONMENT
Education- rebuilding infrastructure	Agriculture- financial support for land leveling and initial restoration	Roads & Bridges- restoration and reconstruction	Stronger Embankments on river banks
Health- rebuilding infrastructure	Trade & Industry- fiscal support and immediate support through extended repayments, write offs where necessary	Energy- review the generation approach, undertake viability exercise, recoup funds through insurance cover	De-siltation
Social Security- Food & Nutrition- assured supplies and restoration of supply net work	Tourism- a paradigm shift in strategy, extended EMIs, financial support, loan waiver	Telecommunication- restoration and universal coverage	Pollution- Management
Water Supply & Sanitation- restoration of supply network	Employment- Public and private sector employment generation, skill upgradation	Housing- restoration, new construction where necessary, temporary arrangements initially to be replaced by permanent structure	Land Resource Management

8.5 As per the recommendations of the Fifteenth Finance Commission, the SDRF would receive 80 percent of the total SDRMF, while the SDMF would get 20 percent of the allocation. Within the SDRF allocation of 80 percent, there would be three sub-allocations: Response and Relief (40 percent), Recovery and Reconstruction (30 percent) and Preparedness and Capacity-building (10 percent). While the funding windows of SDRF and SDMF are not inter-changeable, there could be flexibility for re-allocation within the three sub-windows of SDRF. Fifteenth Finance Commission had allocated a total of Rs. 160,153 crore for disaster relief with a share of 80 percent for Centre (Rs. 122,601 crore) and 20 percent for States (Rs. 37,552 crore). Centre's share is further distributed as Rs. 64,061 crore for response and relief; Rs 48,046 crore for recovery and reconstruction and Rs. 16,015 crore for preparedness and capacity building (Table 8.1).

Table 8.1 Resource allocated for Disaster Relief & Management (Rs Crore)

Item	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Centre share	22,184	23,294	24,466	25,688	26,969	122,601
State share	6,799	7,137	7,491	7,864	8,261	37,552
Total	28,983	30,431	31,957	33,552	35,230	160,153

Box 8.2: Disaster Relief- Views & Recommendations of the Finance Commissions

- The financial provision for calamity expenditure started with the Margin Money scheme, which was first recommended by the FC-II (1957-62). It was roughly calculated on the basis of the average annual expenditure on relief over the previous decade.
- The FC-IX (1989-95) recommended the establishment of a Calamity Relief Fund (CRF) for each State, the size of which was decided on the basis of the average of the actual ceiling of expenditure approved for an individual State over a ten-year period ending 1988-89. The Union would contribute 75 percent of the CRF, while the States would contribute 25 percent. The FC-X (1995-2000) recommended the setting up of a National Fund for Calamity Relief (NFCR) to assist any State affected by a calamity of rare severity.
- The FC-XI (2000-05) dissolved the NFCR and recommended the setting up of a NCCF with an initial corpus of Rs. 500 crore which was to be recouped through the levy of a special surcharge on Central taxes. The NCCF would thus be funded largely through the levy. The FC-XII (2005-10) while continuing with the recommendations of earlier commission found considerable justification in widening the list of calamities. The FC-XIII recommended that the CRF be merged into the SDRFs of individual states and that the NCCF be merged into the NDRF. It also recommended an additional grant of Rs. 525 crore for capacity building to the States, outside the size of total SDRF allocation.
- The FC-XIV (2015-20) followed the expenditure-driven approach of previous Finance Commissions; it recommended a change in the cost-sharing arrangement by which the 90:10 sharing of contribution between the Union and the States was extended to general category States. It also considered 'disasters' within the local context.
- The FC- XV recommended that SDRMF should be subdivided into funding windows that encompass the full disaster management cycle. Thus, the SDRF should get 80 percent of the total allocation and the SDMF 20 percent. The SDRF allocation of 80 percent should be further distributed as follows: Response and Relief – 40 percent; Recovery and Reconstruction – 30 percent; and Preparedness and Capacity-building – 10 percent. While the funding windows of the SDRF and SDMF are not interchangeable, there could be flexibility for re-allocation within the three sub-windows of SDRF. The allocation for the NDRMF should be based on expenditure in previous years. The allocation for the NDRMF should also be subdivided into funding windows similar to that of States' allocation for disaster management. The new methodology, which replaces the expenditure-driven methodology, is most inclusive, as it represents a combination of capacity (as reflected through expenditure), risk exposure (area and population) and hazard and vulnerability (risk index).

8.6 The mechanism of disaster risk financing in India reflects the distribution of responsibility in respect of disaster management. It is the State Governments which respond immediately to disasters – organizing rescue, evacuation and relief and providing people with assistance.

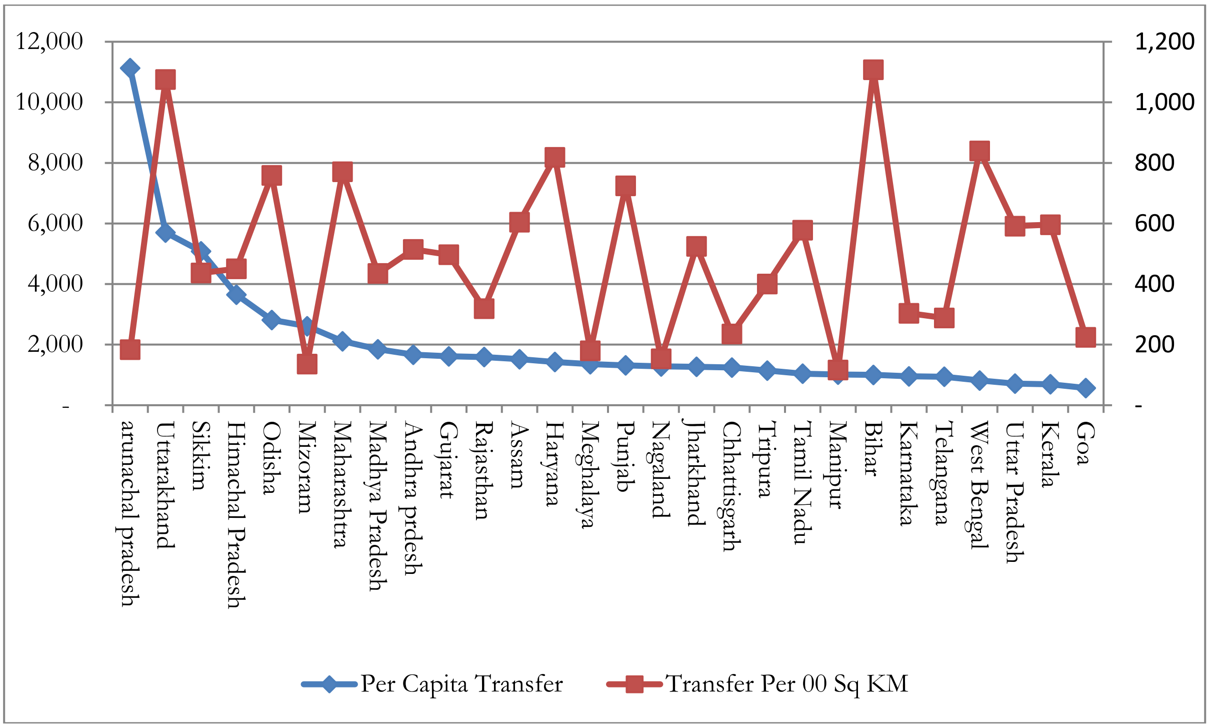
Expenditure Receipts under NDRF and SDRF of the State are summarized in Table 8.2 below. Per capita per 100 Sq. Km allocation by Fifteenth Finance Commission is in Fig 8.1.

Table 8.2: Receipt and Expenditure under Disaster Relief Fund (Rs crore)

Year	NDRF		SDRF		Total	
	Receipt	Expenditure	Receipt	Expenditure	Receipt	Expenditure
2011-12	201.56	107.59	36.21	49.58	237.77	157.17
2012-13	-	93.97	27.33	8.19	27.33	102.16
2013-14	74.5	73.48	29.25	31.86	103.75	105.34
2014-15	-	-	28.78	26.25	28.78	26.25
2015-16	-	-	31	37.96	31	37.96
2016-17	-	-	33	27.51	33	27.51
2017-18	-	-	35.27	46.9	35.27	46.9
2018-19	54.93	53.74	38.23	30.15	93.16	83.89
2019-20	-	-	40.2	34.81	40.2	34.81
2020-21	73.86	73.86	59.49	42.99	133.35	116.85
2021-22	-	-	48.68	78.74	48.68	78.74
2022-23	55.23	55.23	60.72	50.54	115.95	105.77
2023-24	81.89	71.89	73.57	59.99	155.46	131.88
2024-25	229.83	219.21	67	105.56	296.83	324.77
Total	771.18	529.76	608.73	525.47	1380.53	1380

Source: State Budgets

Fig 8.1: Per capita and Per 00 Sq KM allocation to States (Rupees)



Source: Calculation based on FC-XV

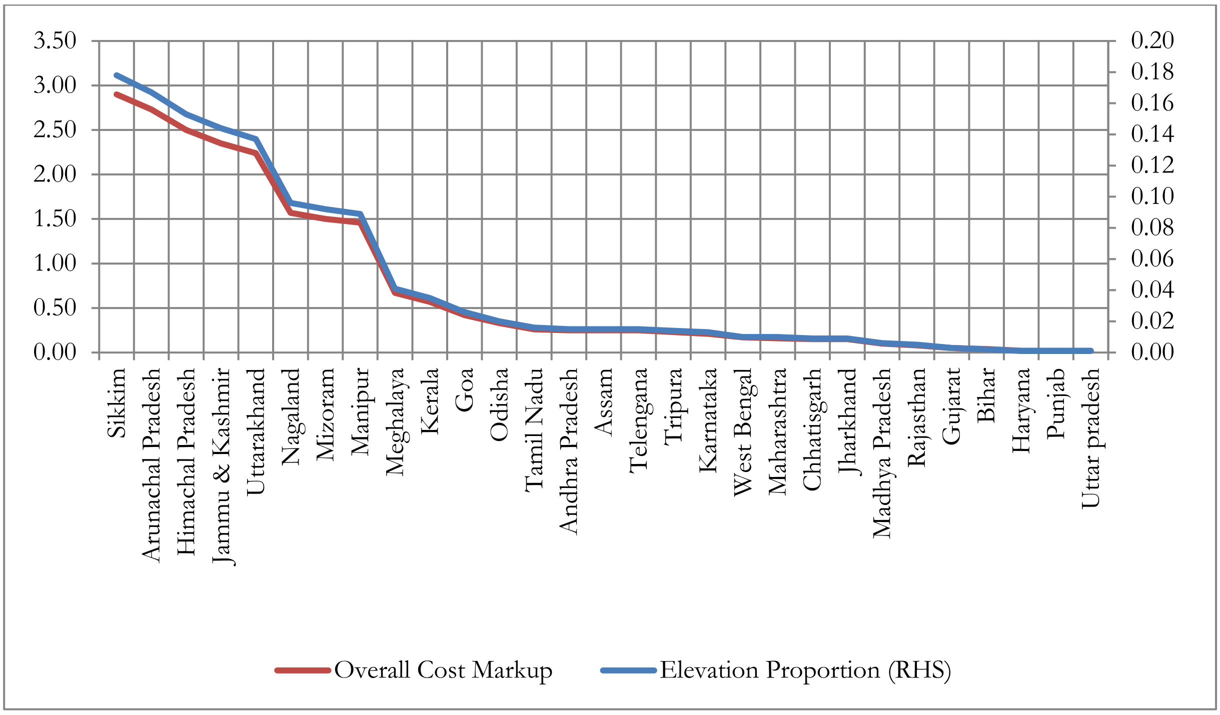
8.7 The hilly states are considered high hazard risk and because low density of population have higher allocation. Most of the mainland areas have allocation in range of Rs. 1000-2000 per capita and variations are on account of risk assessment of floods and drought. Goa and Kerala have lowest per capita allocation of Rs. Less than 700 and Uttar Pradesh is not far ahead with per capita allocation of Rs. 713. In area, Bihar and Uttarakhand have allocation exceeding Rs 1000 per 00sq. km. Fifteenth Finance Commission did work out a risk hazard index but these were hardly able to capture risks of hilly States. In view of this the DRI for Sikkim should be considered as:

State	Floods/ GOLF/ Cloud Burst	Land Slides	Earth Quake	Forest Fires	Others	Elevation linked additional cost	Total
Sikkim	15	15	15	15	15	15	90

Elevation has significant disaster and disaster cost implications

8.8 Fourteenth Finance Commission has requested Institute of Economic Growth to find a more appropriate measure of cost differences. The study used state-wise data on elevation to compute the costs and departed from the conventional administrative definition of hill districts. The elevation data was sourced from the National Remote Sensing Centre and the Surveyor General of India's office, and made available for the research purpose by the 14th Finance Commission. Costs were estimated for three key public sector activities in this part of the exercise: health, education and, roads and bridges. Data on various parameters relevant for these sectors was quantitatively analysed and a cost function, which explicitly allowed for costs to vary by the extent of elevated area in a state was estimated. Further, because of the very topography, these are elevation is strongly related to disaster risk. This strengthens the need to include this as one of the parameters in disaster risk mitigation and rehabilitation.

Fig 8.2: Cost Mark up and Elevation proportion of the States



Source: Puranmita Dasgupta- Cost Disabilities of Hill states in India, 2014, (A Study sponsored by FC-XIV)

Box 8.3: SIX EARMARKED ALLOCATIONS

Six types of earmarked allocations to address certain priorities related to preparedness, mitigation, and recovery through special initiatives

a) FOUR PRIORITIES are earmarked under NDMF

1. Catalytic Assistance to develop district level drought mitigation plans (12 most drought prone States) Rs.1200 crore :- 100 Crore each (Andhra Pradesh, Bihar, Gujarat, Jharkhand, Karnataka, Madhya Pradesh, Maharashtra, Odisha, Rajasthan, Tamil Nadu, Telangana, and Uttar Pradesh)

2. Reducing risk of Urban Flooding (7 most populous cities) Rs. 2500 crore Rs.2500 crore: - Rs. 500 crore each (Mumbai, Chennai & Kolkata) Rs.250 crore each (Bengaluru, Hyderabad, Ahmedabad, and Pune)

3. Managing Seismic & landslide risk (10 hill states) Rs. 750 crore: - Rs. 250 crore each (Himachal Pradesh, Uttarakhand) Rs. 250 crore (for all states in the North East – Assam, Arunachal, Mizoram, Meghalaya, Manipur, Nagaland, Sikkim & Tripura)

4. Mitigation measures to prevent erosion Rs. 1500 crore: - To mitigate the risk of erosion

States would need to apply for these funds for undertaking erosion mitigation works

b) TWO PRIORITIES are earmarked under NDRF

1. Resettlement of displaced people affected by erosion- Rs. 1000 crore

2. Expansion & modernisation of fire services- Rs. 5000 crore

Criteria to be followed for allocation of grants under Disaster Relief

8.9 Disaster management is public responsibility and the reconstruction and restoration that is required post disaster needs public funding. The resource flow should therefore be adequate and augmented. We suggest that instead to a lump sum allocation with a normal annual increase, their allocation should be linked to the buoyant source. We suggest that 1percent of gross revenue should be earmarked to the disaster relief as grants. The criteria to be followed should be population (50 percent weight) and area (50 percent weight). We suggest that the weights assigned should follow the same principle as in horizontal interstate transfer with a minimum threshold of 2 because the cost disadvantage on account of density and elevation is same for a State and also the local bodies within the State and population a threshold minimum of 1 on account of economies of scale. States should have little more freedom in declaring a disaster as State Disaster and should have little more flexibility in list of items.

9. State specific schemes

While Sixteenth Finance Commission does not have any TOR per se to consider State Specific requests, following requests with a total request for Rs. 30,800 crore is proposed:

- **Development of Agriculture (Rs 2000 crore).**
- **Mono Rail/Cable car network and Satellite Town (Rs 20,000 crore).**
- **Constructing Mini secretariats Gangtok, in newly formed 2 Districts and other four Districts (Rs 4000 Crore).**
- **Maintenance Grants (Rs. 360 crore annually for 5 years).**
- **Peace Bonus (Rs. 100 crore annually for 5 years).**
- **Grant for sustaining ecology (Rs. 1,000 crore annually).**
- **Grants for Multi Model Corridor Between Sikkim & Nepal (Rs 500 crore).**
- **State University & Netaji Subhash Centre of Excellence (Rs. 1000 crore).**
- **Additional resource mobilization as recommended by the State Finance Commission and as has earlier been considered by the State Government (consider for recommending to the Union).**
- **Recommending levy of cess on GST items in exceptional circumstances.**

Development of Agriculture (Rs 2000 crore)

9.2 A multiple intervention strategy is needed for increasing the income of the farm households. The possible options that have been adopted so far fall in one of the following categories. In most of these areas there are schemes already in operation. Assistance has been sought for some programmes in these broad categories as additives.

Table 9.1: Enhancing Farmers' Income- Instruments and Programmes

<table>
<tr><th>Objective</th><th>Policy Options</th><th>Instruments</th><th>Schemes/Programmes</th></tr>
<tr><td rowspan="17">Enhancing Farmers Income</td><td rowspan="10">Enhancing Gross Income</td><td rowspan="4">Production Growth</td><td>Increase cropping intensity</td></tr>
<tr><td>Bridge productivity gaps</td></tr>
<tr><td>Extended irrigation</td></tr>
<tr><td>Higher nutrient use</td></tr>
<tr><td rowspan="3">Better Prices</td><td>Increased MSP</td></tr>
<tr><td>Institutional Procurement</td></tr>
<tr><td>Aggregation for volume and better prices</td></tr>
<tr><td rowspan="3">Diversification</td><td>Processing Linkage</td></tr>
<tr><td>Allied Activities/Animal Husbandry</td></tr>
<tr><td>Better crop mix</td></tr>
<tr><td rowspan="3">Reducing Costs</td><td rowspan="2">Reduce Purchase Inputs</td><td>Better nutrient management</td></tr>
<tr><td>Use of farm residue</td></tr>
<tr><td>Exploit Complementarities</td><td>Technology use</td></tr>
<tr><td rowspan="3">Income Stabilization</td><td rowspan="3">Coping Mechanisms</td><td>Crop Insurance</td></tr>
<tr><td>Assets Insurance</td></tr>
<tr><td>Institutional coping mechanism</td></tr>
</table>

9.3 Sikkim embarked on a programme "Going for Organic Farming in Sikkim" in May 2003. It put a complete ban on use of chemical fertilizers and pesticides. Cost of production in organic farming is usually high and increase in yield and income of the farmers will take time to get sustained. There has hardly been any central initiative for compensating the farmers in Sikkim for their eco-friendly initiative. It has not even been eligible for subsidy on fertilizers as revenue forgone. Currently, on an average for each hectare of gross sown area around Rs. 3,500 accrues as fertilizer subsidy. Efforts of the Government have resulted in getting organic farming more successful, but the sector is still not in a position to provide any additional revenue support and in its stage of infancy needs support for cultivation, technical support, collection, grading, processing and marketing.

9.4 Because of the ban on chemical fertilizers and pesticides, Sikkim has no longer remained eligible for any compensation from large fertilizer subsidies which is available to farmers of other States. Cost of production in organic farming is usually high and increase in yield and income of the farmers take time to get sustained. One way of compensating the farmers in Sikkim for their eco-friendly initiative is to make the State eligible for subsidy on fertilizers as revenue forgone. Currently, on an average for each hectare of gross sown area around Rs. 4,500 accrues as fertilizer subsidy. Organic farming is also system of farming that is considered to mitigate climate change, should qualify to be a candidate for obtaining 'green credit'. Mechanisms/strategies should be developed under the CDM (clean development mechanism) market for considering organic farming as a 'green credit' activity. This is also in line with India's approach seeking a paradigm shift in global attitudes towards climate change, from 'carbon credit', towards 'green credit'. A grant of Rs. 2000 crore may be recommended for comprehensive development of Organic farming, including raising crops, crop standardization & grading, collection, branding and marketing.

Mono Rail/Cable car network and Satellite Town

9.5 Gangtok, the capital city of Sikkim has become highly congested and overcrowded. Located in the hills, it has limited possibility of widening of roads and creating additional infrastructure for movement of individuals and goods. It is, therefore, necessary to set up a satellite town of Gangtok between Pakyong and Gangtok and at Ranka properly connected with Gangtok. The satellite towns would serve the dual purpose of decongesting Gangtok and provide additional space for its expansion needs. More than 15 percent of Sikkim's population currently resides in Gangtok and besides the residence; it is both the commercial centre and capital city with future expansion to cater to nearly 25 percent of population, directly and others indirectly through supply chains. A 50,000-population satellite town would be considered in the first phase. With the success of this endeavor more ring-fencing locations could be considered later.

9.6 Similarly, the narrow roads and uneven topography of the city does not enable for innovations in traffic movement. In such cases, Mono Rail/Cable car network is the most feasible option. A single-track mono-rail network of around 50 kms initially together with another line with a link from satellite towns or alternatively of cable car network within Gangtok needs urgent consideration. Once in principle approval is received, formal DPR for the monorail/ cable car network and satellite town could be prepared. Monorail costs one third of a metro network and can be above, below and on surface as per the requirements. A stretch of 50 kms of mono rail or that of cable car network of approximately same distances may approximately cost Rs. 12,500 crore and together with a satellite town for 50,000 population cost could be around Rs. 20,000 crore. The monorail is likely to cut down the travel time with in Gangtok to a few minutes from currently 70-75 minutes. A road journey from Bagdogra to Gangtok, which is 120 Kms takes nearly six hours in most times of which more than one and half hours is in negotiating Gangtok and its suburb. In view of this both the monorail/ cable car network and a satellite town are critical for keeping the city vibrant.

Constructing Mini secretariats at Gangtok, in two newly formed Districts and four other Districts (Rs 4000 Crore)

9.7 There is need for constructing mini secretariat at two newly formed Districts and strengthening at the levels of old Districts. We suggest Commission to recommend Rs. 750 crore each for new mini secretariats (2 number), strengthening for the four others at Rs. 500 crore each and Rs 500 crore for mini secretariat at Gangtok to locate all important offices in a cluster for ease of administration and proper coordination.

Maintenance Grant

9.8 Earlier Commissions have been providing financial support for maintenance of assets covering repairs of roads and buildings. It is proposed that such an initiative of the 16th Finance Commission may be appropriate and timely. Post covid, fiscal stress has made maintenance of assets a lesser priority expenditure. Keeping assets in working conditions is as good as creating new ones. In view of this we suggest that Commission may consider allocating 2 percent of cumulative capital expenditure as maintenance cost of projects.

Sectors	Cumulative Expenditure	Maintenance Grant
General Services	1,878.60	37.572
Social Services	6,346.60	126.932
Education	1,359.90	27.198
Health	1,232.00	24.64
Water Supply, Sanitation, Housing & Urban Development	3,754.80	75.096
Economic Services	10,181.20	203.624
Agriculture, Rural Development & Area Programmes	1352.0	27.04
Energy	1,838.20	36.764
Transport	5,335.30	106.706
Other Economic Services	1,655.70	33.114
Total Capital Expenditure	18,406.50	368.13

Capital Expenditure covers all expenditure of non-financial nature and is a surrogate measure of projects created.

The Peace Bonus

9.9 The Union Government has been implementing a scheme for reimbursement of security related expenditure for the affected seriously affected by militancy/insurgency in North East region. Under it expenditure incurred by the States on items, including raising of Indian Reserve Battalions, logistics provided to the paramilitary forces/army deployed in the State, ex-gratia grants and gratuitous relief to victims of extremist violence, 75 percent of expenditure incurred on POL on operations, honorarium paid to village gaurds/ village defence committees/homegaurds and expenditure on maintenance of designated camps etc. is reimbursed to the States. Sikkim, which shares international borders with Nepal, Bhutan and China, and Mizoram are the two states which are not covered by this scheme. The prevalence of peace in Sikkim which is so crucial for economic prosperity not only for the State but its neighbours, neither gets appreciated nor rewarded. Sikkim has had no recourse to para military and central forces for peace keeping since 1995 and it needs to be rewarded. We request 16thFinance Commission to consider Sikkim and provide an assistance of Rs. 100 crore annually as a peace bonus.

The initiatives for maintaining ecology and the carbon sequestered by forests

9.10 Successive Finance Commissions have recognised that forests constitute the first line of defense against pollution resulting from economic activity. Forest is one of the richest natural resources of Sikkim. With luxuriant forest, abounding in all parts of state, forestry has been the major land use in the State. Nearly 82 percent of the total geographical area of the State is under the administrative control of the State Forest Department. The forest and tree cover of the State is 47.6 percent of the total geographical area of the state. This proportion is one of the largest in the country. The varied topographical characteristics provide uniqueness to Sikkim and make it rich in floristic diversity. More than 1100 species of plants have medicinal use both for human beings and domestic animals.

9.11 Given limited resources at the disposal of the State, preserving the vast forest area and biodiversity in Sikkim has always remained a challenge. The State Government had been realizing Environment Cess as per the provisions of Sikkim Ecology Fund and Environment Cess Act, 2005 (1 of 2005)**,** since financial year 2007-08. The rate of Cess for Scheduled non-biodegradable consumption and construction items fixed at 1 percent of total turnover on sale price of non-bio degradable materials and at the rate of 5 percent of total turnover in respect of hotels, resorts, lodges/motels. The yield from the Environment Cess was spent directly by the State Government through the Sikkim Ecology Fund and Environment Cess Authority and utilized on items listed in the rules for protection and improvement of the environment. The Environment Cess has been abolished after implementation of Goods and Services Tax.

9.12 The Government of Sikkim over the years has adopted policies that are sustainable and eco-friendly. Concerted efforts have been made to preserve and increase the forest cover in the State which include: (a) in-situ and ex-situ conservation measures such as fencing the vulnerable areas, assisted natural regeneration, and artificial regeneration; (b) protecting large undisturbed habitats from further fragmentation by confining tourism activities only in areas that are already well designated; (c) conducting joint anti-poaching operations of forest staff and local community organizations; (d) regenerating degraded areas through plantation activities under various flagship schemes; (e) fencing areas prone to biotic pressure in the form of grazing; (f) eco- restoration of hill slopes and moisture management; (g) treat the landslides and soil erosion in an integrated way to stabilize the landslides in the riverbanks and gullies and reduce potential for channelized debris flows or debris floods; and (h) augmentation of water sources through treatment in the recharge zone wherever necessary.

9.13 The approach is to foster harmony between people and environment and between conservation and development. The climate change poses a serious challenge to forests of Sikkim. It, at the same time, offers opportunities that can be leveraged for forest management. The State has imposed a ban on burning of agricultural wastes for the dual purpose of enriching the soil with organic nutrients as well as to reduce Carbon released into the atmosphere. The green initiatives of Sikkim have resulted in an increase in its forest cover from 3,118 sq.km in 1999 to over 3,500 sq.km in 2022. This has resulted because 82 percent of geographic area is recorded as forest, declared as reserve or protected forest, where diversion to non-forestry purposes is strictly prohibited. Nearly one third of the geographic area is directly conserved by establishing an extensive protection network of sanctuaries and national parks, the highest in the country with national average being just 5 percent.

9.14 With a forest cover of 47.08% of its geographical area, one national park and seven sanctuaries, Sikkim is a pioneer in environmental conservation and sustainability in India. Sikkim is a biodiversity hotspot with over 4,000 flowering plant species and 574 bird species, safeguarding about 45% of India's total bird species and sheltering about 26% of total floral biodiversity of the country. With 30.77% of State's geographical area under Wildlife Protected Area Network, Sikkim has the country's highest state-wise percentage of Protected Area. Khangchendzonga National Park covering 1784 sq km is India's first UNESCO designated World Heritage site on mixed criteria (Nature and Culture). Sikkim, is vital for providing India's ecosystem services. Sikkim's forests contribute to biodiversity conservation, carbon sequestration, regulate local and regional climates, prevent soil erosion, and sustain water cycles necessary for agriculture and habitation downstream and benefit the nation as a whole. The Teesta and Rangit rivers, originating from Sikkim, provide critical water resources to nation and are essential for regional water and energy security. Just the estimated value of a single service like water regulation services provided by Sikkim's ecosystems is around ₹3,500 crore annually. Further, it is estimated that amount of carbon sequestered by forest cover is close to 40 million tones and valued at US $ 320 million or roughly Rs. 2,000 crore in international market[10]. A 25 percent of that if accrues to Sikkim would amount to Rs. 500 crore annually go a long way in incentivizing its efforts for ecological conservation. For the eco system as a whole, an annual grant of Rs. 1,000 crore would be a significant support and an encouragement for its sustainability.

9.15 The state's proactive stance on conservation incurs costs, such as restrictions on land use and development projects. Sikkim's commitment to preserving the fragile ecosystem and ensuring nation's ecological security has led to a limitation on potential industrial revenue, which other states can capitalize on. Even though Sikkim plays a crucial role in providing vital ecosystem services, yet the financial and logistical burden of maintaining these services falls heavily on the State. The substantial costs of forest management, soil conservation, water resource management, and disaster risk reduction strain Sikkim's resources. Sikkim's leadership in sustainable development can serve as a model for other states in India. The green bonus for Sikkim is not merely a request for financial assistance but recognition of the state's exceptional contributions to India's environmental sustainability.

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[10]As reported by Boston Consulting Group in their Report- Strategic Investment Plan (2016-2021) for Sikkim

Multi Model Corridor

9.16 Sikkim has been considering building of a Multimodal Corridor with a modern integrated check post between the State of Sikkim and Eastern Nepal through Chewa Bhanjyang which has emerged as a crucial point of cultural, economic, social, tourism and ecological exchanges. It has been a traditional bilateral contact point between west Sikkim in India and Nepal. West Sikkim shares a common border with Province No 1 of Nepal. This Province No 1 has 14 districts and over 4.5 million populations (15 % of Nepal's total population). Among the seven provinces, this eastern province has the second largest area of 25905 sq kms (over 17 % of Nepal's total land area). This is one of the most dynamic economic geographies of Nepal.

9.17 India has several significant national interests in the Eastern Nepal. Firstly, in terms of national security it's a major strategic region and has remained a crucial zone of Indian influence. The **Chewa Bhanjyang Corridor** will further consolidate India's national security interests. Secondly, since this has a range of agricultural, plantation, industrial, commercial and tourism centres and bourgeoning market, the Eastern Nepal has remained a major market and investment zone for India. The proposed Integrated Check Posts with all modern amenities being designed and built by Land Port Authority of India between Kakadvitta (Nepal) and Panitanki (India) is only an indication of the commercial importance of this Eastern Nepal-West Bengal-Sikkim centric region. In view of its strategic location and the benefits that would accrue because of this project, it is requested that the Chewa Bhanjyang Multimodal Corridor is declared as a project of national importance which will be fully planned, designed, funded, built and operated by the Union Government of India. The Hon'ble Minister of External Affairs Shri S Jaishankar has also mentioned that this project is of critical significance to India. An ever-flourishing State like Sikkim in the North Eastern Region of India which already has the highest per capita income in the country will tremendously gain from this prestigious trans-border corridor. This could lead to a development of several social infrastructures in relatively less developed West Sikkim which could be used and harnessed by the people of Eastern and other regions of Nepal. This corridor could act as a major platform in the conservations and advancement of scientific research on some of the rarest flora, fauna, biodiversity, natural and issues of climate change in the Eastern Himalayas. This would naturally include Singalila Range falling at the heart of Chewa Bhanjyang. Government of Sikkim has already started building a two-lane highway from Uttarey to the vicinity of Chewa Bhanjyang. We request an initial grant of Rs. 500 crore for this corridor.

State University & Netaji Subhash Centre for Excellence

9.18 Sikkim does not have a State University. To develop the State Specific curriculum and to effectively cater to the needs of the students in technical, non-technical and medical fields, existence of a State University is very critical. Government of Sikkim has earlier started Netaji Subhash Centre of Excellence to take its education and skill levels to what could be considered as globally comparable. A grant of Rs. 1000 crore would go a long way in realizing the cherished objectives in education and empowerment field.

Additional resource mobilization as recommended by the State Finance Commission and as has earlier been considered by the State Government (consider for recommending to the Union)

9.19 Industrial performance in Sikkim considerably benefited from North East Industrial and Investment Policy (NEIIP), which provided a tax-free regime to industries in this area. The benefits were in addition to the transport subsidy which neutralized the disadvantages arising due to remote locations of these areas and the connectivity constraints. The industrial performance during the last 10 years have been impressive despite some inherent constraints of small local market, connectivity, limited credit support, mainly because of the institutional arrangements which regularly interacted with stakeholders and addressed their concerns. Notwithstanding its poor overall ranking in Ease of Doing Business, Sikkim has remained a business-friendly location. It has not only been able attract investment but ensure that intentions are quickly converted into projects and come on stream as quickly as possible. Better pollution free environment, abundant power supply and a supportive State together with an Industrial Policy which provided the tax-free regime to industries has made certain manufacturing to prosper and be the most profitable in country.

9.20 Overall organised manufacturing in India has generally been resource intensive as reflected in a very low ratio of gross value added to output, which has averaged around 20 percent during 1990-2018. Resource intensity has actually increased in recent years. Sikkim is significantly different in this respect. The ratio of gross value added to output in organised manufacturing at 62.2 percent in Sikkim is the highest in the country. Sikkim also tops in ratio of profit to output and profit to gross value added. Interstate comparison of performance parameters of manufacturing (ASI manufacturing which cover all manufacturing establishments employing 10 or more workers) places Sikkim almost at top.

Table 9.2: Organised Manufacturing Sector- Some Performance Indicators (percent)

Item	As ratio to Output			As Ratio to GVA		
	GVA	Profit	Interest	Profit	Emoluments	Interest
All India	18.2	7.1	2.0	39.3	28.5	11.0
Sikkim	62.2	53.8	0.1	86.5	5.9	0.1
Assam	23.4	14.3	0.8	61.1	18.2	3.4
Maharashtra	21.6	9.8	1.5	45.4	29.1	6.9
Karnataka	19.3	7.5	1.4	39.0	32.5	7.3
Uttar Pradesh	16.4	6.1	2.0	37.4	31.5	12.2
West Bengal	14.2	3.9	2.0	27.4	33.8	14.2

Source: MOSPI- Annual Survey of Industries, 2017-18

9.21 Within manufacturing, there has a dominance of pharma companies in Sikkim. In 2017-18, the share of pharma sector in overall organized manufacturing was 90 percent or more in fixed capital, invested capital, total output, gross value added and profits. These units together employed over 80 percent of total persons engaged in organized manufacturing and 88 percent total employee compensation. The sector has also been profitable to its entrepreneurs. The ratio of gross value added to output at 64.4 percent has been the highest. The sector has generated over Rs. 9,000 crore in profit during 2017-18, with a ratio of profit to output at 55.8 percent. High profitability of this sector has to a considerable extent due to their tax-free status and State policies which has been conducive their growth, including the environment, the sustenance of which costs the State a lot. In view of this it may be appropriate to seek their support and cooperation in times of fiscal need. Based on the data available for 2017-18, from Annual Survey of Industries, updated on current scale it is estimated that revenue of Rs. 200-250 crore may accrue to the State. It is possible to extend this cess to all organized manufacturing. A one percent cess for a specified period may not in any way affect the profitability and competitiveness of this sector. This issue was raised at Inter State GST Council meeting but did not find favour. We consider this as an enabling provision to be used during fiscal needs and to set a balance between income originating and income accruing. The real tax base lies in Sikkim but because consumption happens at other location, tax gets exported to these locations.

9.22 State Finance Commission had recommended endorsement of their recommendation for raising professional tax limit to Rs. 18,000. We request the Commission to endorse this recommendation.

Organic Issues of Sikkim

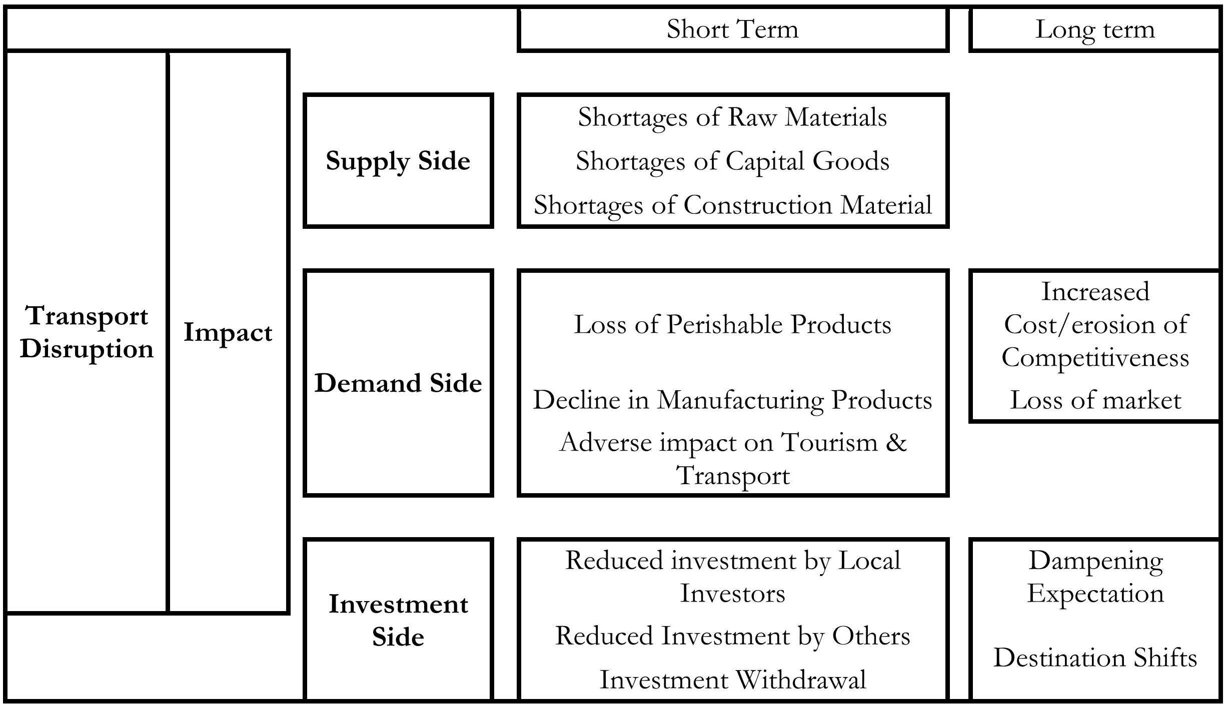
9.23 Sikkim has been a peaceful State and a pioneer in management of ecology. The efforts made by the State in maintaining ecology in the Himalayan region has indeed been a costly affair as these are nascent mountains, fragile and prone to landslides. Rebuilding the State after massive earthquake of 2011and more recently the Teesta Floods in October 2023 are in itself an eye opener to the likely implications of long-term disastrous effects for some short-term economic gains. Efforts since then and even earlier to the disaster have been to give more weightage to sustainability rather than the immediate economic gains. These initiatives, which while are important for Sikkim are equally necessary for the downstream States of West Bengal and even Bangladesh. Its maintenance of ecological balance is also important from national perspective. The economic costs and the expenditure incurred by Sikkim, therefore, needs to be looked not as purely as a responsibility of the State but there should be greater sharing of these. We have accordingly forwarded three issues relating to (a) prevalence of peace in an otherwise turbulent region; (b) institutional mechanism and support for disruption of its lifeline (NH 10) by forces and circumstances external to it; and (c) the initiatives for maintaining ecology and the carbon sequestered by its forests and seek support of the Commission for these initiatives.

Disruption of economic activities due to frequent blockade of NH 10

9.24 The land locked State of Sikkim has been suffering untold loss owing to the recurring blockage of its one and only lifeline NH10 which connects Sikkim with the rest of the nation. There is an atmosphere of uncertainty along the NH10 due to agitation related violence claiming lives causing incalculable loss of property and constant threat to security of life. The ramification of the Gorkhaland agitation or other agitations of similar nature disrupting NH10 is not confined to its State boundaries. Sikkimese students studying in Darjeeling Hills and the rest of India along with people needing medical treatment have no option but to take this tension ridden one and only highway that connects Sikkim with the rest of the country. The overall losses to the State can be divided into two broad categories: economic and non-economic. While the huge economic loss includes loss of gross domestic product (GDP), production loss and loss of employment, non-economic loss cannot be measured in quantity. Output loss from the ongoing agitation and disruption could be in the form of the following:

9.25 Growth of GSDP in Sikkim to a great extent has been contributed by investment. Loss of investment happens at three broad levels. First, at the level of local entrepreneur, the investment is affected due to reduced income, lower margins and internal accruals. Second, investment from prospective investors declines because of dampened expectations. Third, some of local and potential investors may withdraw investment because of disruption. The long term impact affects the very preferred destination tag of Sikkim. The investment decline (forgone) results in loss of GSDP which would have accrued to State as result of this investment. Overall losses suffered by Sikkim differ with different estimates, cumulatively from Rs. 25,000 crore to over Rs. 50,000 crore over the twenty year period and annually from Rs. 500 crore to Rs. 5,000 crore. But, notwithstanding such differences, one thing is clear that these are sizable and its economic impact on the economy of Sikkim has been quite disturbing.

Fig 9.1: Output losses due to disruption of supply line



9.26 Apart from ensuring minimum standards in terms of durability, reliability and riding comforts, movement on this road needs to be disruption free. Construction of an alternate highway to Sikkim along with Indo Bhutan border in West Bengal which has already been approved by Government of India should begin immediately and should be completed in time bound manner. Two concerns are, however, more immediate. First, disruptions caused by blockade and agitations needs to be handled by the Union Government through an appropriate institutional mechanism. The institutional mechanism should also consider compensation to Sikkim for economic losses which it suffers because of the temporary dislocations. Second, recently, NHIDCL has been given the responsibility of maintenance of this highway within Sikkim and PWD of West Bengal for the portion of highway lying in West Bengal. It would be better if a single central agency is entrusted with the maintenance of this highway with funding support from the Union Government.

Annexures

Annex Table- Horizontal Distribution Interstate weights for Parameters

Fiscal Cost			
State	**Area**	**Share**	**Weight**
Andhra Pradesh	160.2	5.245	4.496
Arunachal Pradesh	83.743	2.742	2.350
Assam	78.438	2.568	2.201
Bihar	94.163	3.083	2.643
Chhattisgarh	135.192	4.426	3.794
Goa	3.702	0.121	2.000
Gujarat	196.244	6.425	5.508
Haryana	44.212	1.448	2.000
Himachal Pradesh	55.673	1.823	2.000
Jharkhand	79.716	2.610	2.237
Karnataka	191.791	6.279	5.383
Kerala	38.852	1.272	2.000
Madhya Pradesh	308.252	10.093	8.651
Maharashtra	307.713	10.075	8.636
Manipur	22.327	0.731	2.000
Meghalaya	22.429	0.734	2.000
Mizoram	21.081	0.690	2.000
Nagaland	16.579	0.543	2.000
Orissa	155.707	5.098	4.370
Punjab	50.362	1.649	2.000
Rajasthan	342.239	11.205	9.605
Sikkim	**7.096**	**0.232**	**2.000**
Tamil Nadu	130.06	4.258	3.650
Telengana	114.841	3.760	3.223
Tripura	10.486	0.343	2.000
Uttar Pradesh	240.928	7.888	6.762
Uttarakhand	53.483	1.751	2.000
West Bengal	88.752	2.906	2.491
	3054.261	**100**	**100**

Annex Table- Horizontal Distribution Interstate weights for Parameters

Fiscal Need			
State	**Population (Millions)**	**Share (percent)**	**Weight (percent)**
Andhra Pradesh	49.39	4.193	3.881
Arunachal Pradesh	1.38	0.117	1.000
Assam	31.21	2.65	2.453
Bihar	104.1	8.838	8.181
Chhattisgarh	25.55	2.169	2.008
Goa	1.46	0.124	1.000
Gujarat	60.44	5.131	4.750
Haryana	25.35	2.152	1.992
Himachal Pradesh	6.87	0.583	1.000
Jharkhand	32.99	2.801	2.593
Karnataka	61.1	5.187	4.802
Kerala	33.41	2.836	2.626
Madhya Pradesh	72.63	6.166	5.708
Maharashtra	112.37	9.54	8.831
Manipur	2.57	0.218	1.000
Meghalaya	2.97	0.252	1.000
Mizoram	1.1	0.093	1.000
Nagaland	1.98	0.168	1.000
Orissa	41.97	3.563	3.298
Punjab	27.74	2.355	2.180
Rajasthan	68.55	5.82	5.387
Sikkim	**0.61**	**0.052**	1.000
Tamil Nadu	72.15	6.125	5.670
Telengana	35.19	2.987	2.765
Tripura	3.67	0.312	1.000
Uttar Pradesh	199.81	16.963	15.702
Uttarakhand	10.09	0.857	1.000
West Bengal	91.28	7.749	7.173
	1177.93	**90**	**100.000**

Annex Table- Horizontal Distribution Interstate weights for Parameters

Fiscal Capacity	GSDP Per Capita			Average	Difference "t"	t* Pop	Weight
State	**2020-21**	**2021-22**	**2022-23**				
Andhra Pradesh	188,384	219,799	245,582	217,922	79,845	39,436	2.6454
Arunachal Pradesh	200,035	212,372	225,770	212,726	85,041	1,174	0.0787
Assam	97,401	116,554	134,591	116,182	181,585	56,673	3.8017
Bihar	46,412	52,144	59,244	52,600	245,167	255,219	17.1206
Chhattisgarh	120,113	138,256	154,609	137,659	160,108	40,908	2.7442
Goa	476,900	519,681	567,344	521,308	5,294	77	0.0052
Gujarat	232,862	273,290	309,691	271,948	25,819	15,605	1.0468
Haryana	251,311	295,325	329,777	292,138	5,629	1,427	0.0957
Himachal Pradesh	205,589	232,180	257,249	231,673	66,094	4,541	0.3046
Jharkhand	77,561	97,035	106,310	93,635	204,132	67,343	4.5175
Karnataka	246,366	294,833	336,221	292,473	5,294	3,234	0.2170
Kerala	220,400	259,878	286,595	255,624	42,143	14,080	0.9445
Madhya Pradesh	112,640	128,406	144,688	128,578	169,189	122,882	8.2432
Maharashtra	210,603	251,521	289,404	250,509	47,258	53,103	3.5623
Manipur	84,731	110,184	125,406	106,774	190,993	4,909	0.3293
Meghalaya	102,259	120,678	138,381	120,439	177,328	5,267	0.3533
Mizoram	197,710	218,634	248,908	221,751	76,016	836	0.0561
Nagaland	136,093	145,799	166,369	149,420	148,347	2,937	0.1970
Orissa	118,586	151,971	164,564	145,040	152,727	64,099	4.2999
Punjab	172,098	197,156	211,204	193,486	104,281	28,928	1.9405
Rajasthan	129,077	149,763	168,338	149,059	148,708	101,939	6.8383
Sikkim	**490,607**	**553,671**	**622,120**	**555,466**	**5,294**	**32**	**0.0022**
Tamil Nadu	234,486	270,787	311,778	272,350	25,417	18,338	1.2302
Telengana	250,825	297,251	345,226	297,767	5,294	1,863	0.1250
Tripura	132,076	152,329	175,261	153,222	144,545	5,305	0.3559
Uttar Pradesh	71,410	85,293	97,323	84,675	213,092	425,778	28.5622
Uttarakhand	198,851	232,947	262,174	231,324	66,443	6,704	0.4497
West Bengal	116,664	135,080	154,905	135,550	162,217	148,072	9.9330
						1,490,708	**100**

Annex Table- Horizontal Distribution Interstate weights for Parameters

Fiscal Contribution	GSDP				Weight
State	**2020-21**	**2021-22**	**2022-23**	**Average**	
Andhra Pradesh	978,581	1,148,471	1,303,524	1,143,525	5.054
Arunachal Pradesh	30,525	32,705	35,107	32,779	0.145
Assam	339,803	410,724	478,779	409,769	1.811
Bihar	567,814	647,394	746,417	653,875	2.890
Chhattisgarh	352,328	410,525	464,399	409,084	1.808
Goa	74,158	81,226	89,130	81,505	0.360
Gujarat	1,616,106	1,920,927	2,203,419	1,913,484	8.457
Haryana	729,079	868,905	984,055	860,680	3.804
Himachal Pradesh	151,601	172,162	191,728	171,830	0.759
Jharkhand	296,664	376,127	417,361	363,384	1.606
Karnataka	1,641,460	1,978,094	2,269,995	1,963,183	8.677
Kerala	771,724	924,465	1,023,602	906,597	4.007
Madhya Pradesh	946,628	1,092,964	1,246,471	1,095,354	4.841
Maharashtra	2,610,651	3,144,138	3,645,884	3,133,558	13.849
Manipur	29,776	35,027	40,243	35,016	0.155
Meghalaya	33,776	40,222	46,551	40,183	0.178
Mizoram	23,923	26,695	30,690	27,103	0.120
Nagaland	29,832	32,265	37,150	33,082	0.146
Orissa	540,185	697,013	759,560	665,586	2.942
Punjab	540,853	627,717	681,251	616,607	2.725
Rajasthan	1,017,917	1,194,961	1,357,851	1,190,243	5.260
Sikkim	**33,018**	**37,650**	**42,677**	**37,782**	**0.167**
Tamil Nadu	1,788,074	2,072,496	2,393,364	2,084,645	9.213
Telengana	943,078	1,124,086	1,311,823	1,126,329	4.978
Tripura	53,504	62,302	72,348	62,718	0.277
Uttar Pradesh	1,640,097	1,981,367	2,284,104	1,968,523	8.700
Uttarakhand	225,617	267,143	303,781	265,514	1.173
West Bengal	1,141,802	1,329,238	1,531,758	1,334,266	5.897
	19,148,575	**22,737,012**	**25,993,023**	**22,626,204**	**100.000**

Annex Table- Horizontal Distribution Interstate weights for Parameters

Performance	**SDG**					**Average * Pop**	**Weight**
State	**SCORE 2018**	**SCORE 2019**	**SCORE 2020**	**SCORE 2023**	**Average**		
Andhra Pradesh	64	67	72	74	69.25	3420.25	4.677
Arunachal Pradesh	51	53	60	65	57.25	79.00	0.108
Assam	49	55	57	65	56.5	1763.36	2.411
Bihar	48	50	52	52	50.5	5257.05	7.188
Chhattisgarh	58	56	61	67	60.5	1545.77	2.114
Goa	64	65	72	75	69	100.74	0.138
Gujarat	64	64	69	74	67.75	4094.81	5.599
Haryana	55	57	67	72	62.75	1590.71	2.175
Himachal Pradesh	69	69	74	77	72.25	496.35	0.679
Jharkhand	50	53	56	57	54	1781.46	2.436
Karnataka	64	66	72	77	69.75	4261.72	5.827
Kerala	69	70	75	79	73.25	2447.28	3.346
Madhya Pradesh	52	58	62	67	59.75	4339.64	5.934
Maharashtra	64	64	70	73	67.75	7613.06	10.410
Manipur	59	60	64	72	63.75	163.83	0.224
Meghalaya	52	54	60	63	57.25	170.03	0.232
Mizoram	59	56	68	72	63.75	70.12	0.096
Nagaland	51	57	61	63	58	114.84	0.157
Orissa	51	58	61	66	59	2476.23	3.386
Punjab	60	62	68	76	66.5	1844.71	2.522
Rajasthan	59	57	60	67	60.75	4164.41	5.694
Sikkim	**58**	**65**	**71**	**76**	**67.5**	**41.175**	**0.056**
Tamil Nadu	66	67	74	78	71.25	5140.68	7.029
Telengana	61	67	69	74	67.75	2384.12	3.260
Tripura	55	58	65	71	62.25	228.45	0.312
Uttar Pradesh	42	55	60	67	56	11189.36	15.300
Uttarakhand	60	64	72	79	68.75	693.68	0.949
West Bengal	56	60	62	70	62	5659.36	7.739
						73,132	**100.000**

Annex Table- Horizontal Distribution Interstate weights for Parameters

Fiscal Revenue Forgone		
State	**Forests Area**	**Weight**
Andhra Pradesh	29784	4.367
Arunachal Pradesh	66431	9.741
Assam	28312	4.151
Bihar	7381	1.082
Chhattisgarh	55717	8.170
Goa	2244	0.329
Gujarat	14926	2.189
Haryana	1603	0.235
Himachal Pradesh	15443	2.264
Jharkhand	23721	3.478
Karnataka	38300	5.616
Kerala	21253	3.116
Madhya Pradesh	77493	11.363
Maharastra	50798	7.449
Manipur	16598	2.434
Meghalaya	17046	2.499
Mizoram	17820	2.613
Nagaland	12251	1.796
Orissa	52156	7.648
Punjab	1847	0.271
Rajasthan	16655	2.442
Sikkim	**3341**	**0.490**
Tamil Nadu	26419	3.874
Telengana	21214	3.111
Tripura	7722	1.132
Uttar Pradesh	14818	2.173
Uttarakhand	24305	3.564
West Bengal	16382	2.402
	681980	**100.000**