



SIKKIM: OVERVIEW, ISSUES AND CHALLENGES

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**POLICY DESIGN AND
IMPLEMENTATION IN DEVELOPING
COUNTRIES**

OUTLINE OF PRESENTATION



- **Introduction**
- **Industry**
- **Agriculture**
- **Tourism**
- **Hydropower Generation**
- **Relationship with the Indian Union**
- **Conclusion**

SIKKIM- LOCATION



Sikkim, an erstwhile kingdom under the Chogyal Dynasty, became a part of the Indian Union as the twenty-second State on May 16, 1975 with the abolition of monarchy.

It has four districts with Gangtok as the capital.

Sikkim comprise of three ethnic groups, Lepcha, Bhutia and Nepalese.

The State has international borders with China in the North and East, Nepal in the West and Bhutan in the East.



SIKKIM - FACT FILE



Geographical area (sq km)	7,096
Administrative districts (No)	4
Population density (persons per sq km)*	86
Total population (million)	0.61
Literacy rate (%)	82.2
GDP INR Million	163899.40
Per Capita Income	268687.54

Sectoral Contribution to GDP(%) in the Last Five Years

	2013-14	2014-15	2015-16	2016-17	2017-18
Primary sector	8.5	8.4	8.0	7.6	7.8
Secondary sector	60.1	59.9	61.2	62.3	63.0
Tertiary sector	31.4	31.7	30.8	30.1	29.2

Source: Directorate of Economic Statistics, Monitoring and Evaluation, Government of Sikkim.

SIKKIM -GDP TREND



	Gross State Domestic Product (in Rs million)	Population (in million)	Per Capita Income (Rs)	Growth %
1993-94	4027.00	0.41	9821.95	
1994-95	4094.90	0.41	9987.56	1.69
1995-96	4467.20	0.41	10895.61	9.09
1996-97	4758.60	0.41	11606.34	6.52
1997-98	5104.80	0.41	12450.73	7.28
1998-99	5464.10	0.41	13327.07	7.04
1999-00	8958.10	0.41	21849.02	Base Year Change
2000-01	9638.80	0.54	17849.63	7.60
2001-02	10402.90	0.54	19264.63	7.93
2002-03	11162.90	0.54	20672.04	7.31
2003-04	12038.30	0.54	22293.15	7.84
2004-05	17391.50	0.54	32206.48	Base Year Change
2005-06	19094.50	0.54	35360.19	9.79
2006-07	20238.50	0.54	37478.70	5.99
2007-08	21782.30	0.54	40337.59	7.63
2008-09	25349.90	0.54	46944.26	16.38
2009-10	44010.10	0.54	81500.19	73.61
2010-11	47842.80	0.61	78430.82	8.71
2011-12	111651.10	0.61	183034.59	Base Year Change
2012-13	114212.10	0.61	187232.95	2.29
2013-14	121140.50	0.61	198590.98	6.07
2014-15	130709.70	0.61	214278.20	7.90
2015-16	143695.00	0.61	235565.57	9.93
2016-17	153392.80	0.61	251463.61	6.75
2017-18	163899.40	0.61	268687.54	6.85

Source: Reserve Bank of India (RBI), Handbook of Statistics on Indian States: 2018-19

INDUSTRY - FEATURES



Period 1956 - 1980

Few indigenous craft industries like carpet weaving and wood carving followed by few industrial; units set up under State patronage.

Reason: focus on protection of handicrafts craft industry, employment generation etc.,. no concrete policy on industrialization

Period 1970s - 80s

Many industries from mainland India set up their production units engaged in the manufacture of cigarettes, cosmetics, pharmaceuticals, etc.

Reason: (i)Fiscal incentives on-applicability of various Central Exercise Acts in Sikkim along with Central Transport Subsidy Scheme, the Central Investment Subsidy Scheme (ii) Institutional support

However, later applicability of Acts along with Industries Licensing Act of 1982 led to the closure of many establishments.

INDUSTRY- FEATURES



Period post 2002

This phase saw establishment of many pharmaceutical companies in the State of Sikkim.

Reason: (i) More incentives on extension of North East Industrial and Promotional Policy (NEIIP) of 1997 (revised NEIIP, 2007) Transport Subsidy Scheme (TSS) of 1971 and Freight Subsidy Scheme (FSS) of 2013 to the State of Sikkim due Sikkim's Inclusion in Northeast Development Council (ii) Structural reforms- Full fledged Department of Industries for Directorate of Industries in 2003

Current Status

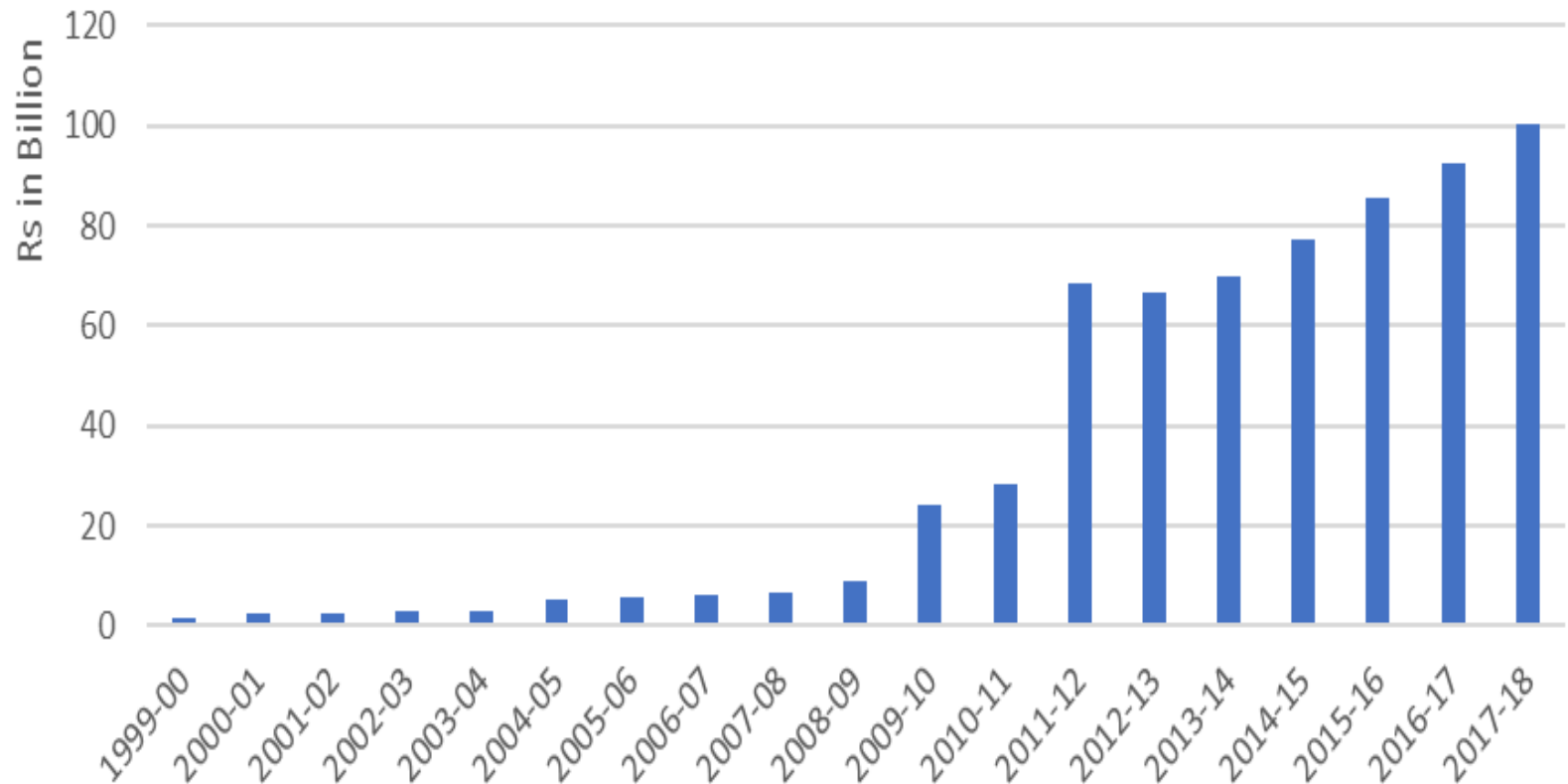
The State's industrial base as of 2017 consisted of 690 manufacturing establishments in pharmaceuticals, food processing, breweries, packaging, etc. mainly concentrated alongside the River Teesta on the National Highway in the East District of Sikkim. No data base for MSME units.

The trend of Industrial production to State Gross Domestic Product in constant prices for the period of 1991-2018 shows the growing contribution of industry particularly that of manufacturing industries in the State.

INDUSTRY- FEATURES



Figure 1: Gross State Domestic Product -Industry At Factor Cost



Source: Reserve Bank of India (RBI), Handbook of Statistics on Indian States: 2018-19

INDUSTRY – ISSUES



- Top-down with industrialization in the State largely driven by policy making in Delhi which was delivered mostly in tax concessions, rebates and subsidies
- Infrastructure planning did not precede industrialization in the State
- Involvement and participation of the private sector towards industrialization is minimal.
- No considerable value addition in the State nor meaningful participation in a value chain- no large-scale manufacturing industries
- MSME sector in the State has been growing at a snail's pace despite the considerably long presence of many developmental agencies-No State MSME policy.
- The role of government in creating industrial estates and related infrastructure to attract competitive industries have been passive and ineffective.

INDUSTRY- ISSUES



- The identification of an area for development of clusters difficult in the State because of separate spatial locations and diverse activities of the existing units.
- The People of the State also lacks entrepreneurship and aspiration, where a low paying government job is still the preferred choice.
- Lack of specialized technical expertise among the Sikkimese youth.
- No separate and distinct body representing industries and entrepreneurs to share, discuss and resolve industrial bottlenecks
- The Indio China Trade vis Nathula Pass in Sikkim still remains a symbolic engagement – no significant role and contribution
- Suspension of NEIIP Subsidy Scheme from the year 2014, is likely to discourage attraction of large-scale industries in the State

AGRICULTURE-FEATURES



- Agriculture is practiced through traditional farming on terraced slopes-landscape not suitable for mechanization of farming.
- Farmers are engaged in the cultivation of crops like maize, millet, wheat, oil seeds, pulses, spices and barley limited to self consumption and surplus if any sold in the local market.
- The cultivated area has remained around 75,000 hectares for the last decade while the cropped area has decreased due to diversion of land for non-agricultural purposes like housing and infrastructure development
- The agricultural production in Sikkim has remained stagnant at lower than both the regional and national averages for all major crops. This has created absolute dependency on neighboring States for food supply.
- The State embarked on an organic mission since 2006
- Lack of policy initiative to tap potential sectors of animal husbandry, horticulture and floriculture in the State

AGRICULTURE-FEATURES



Figure 2: Gross State Domestic Product -Agriculture at Factor Cost

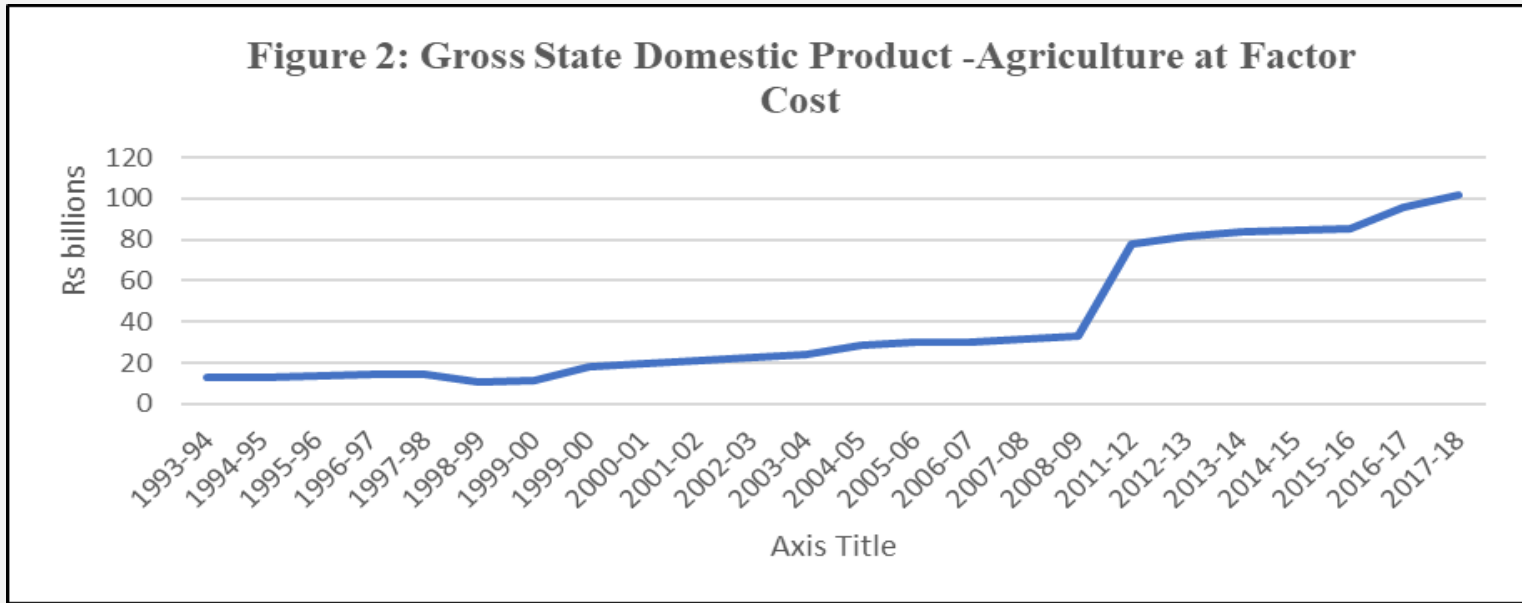
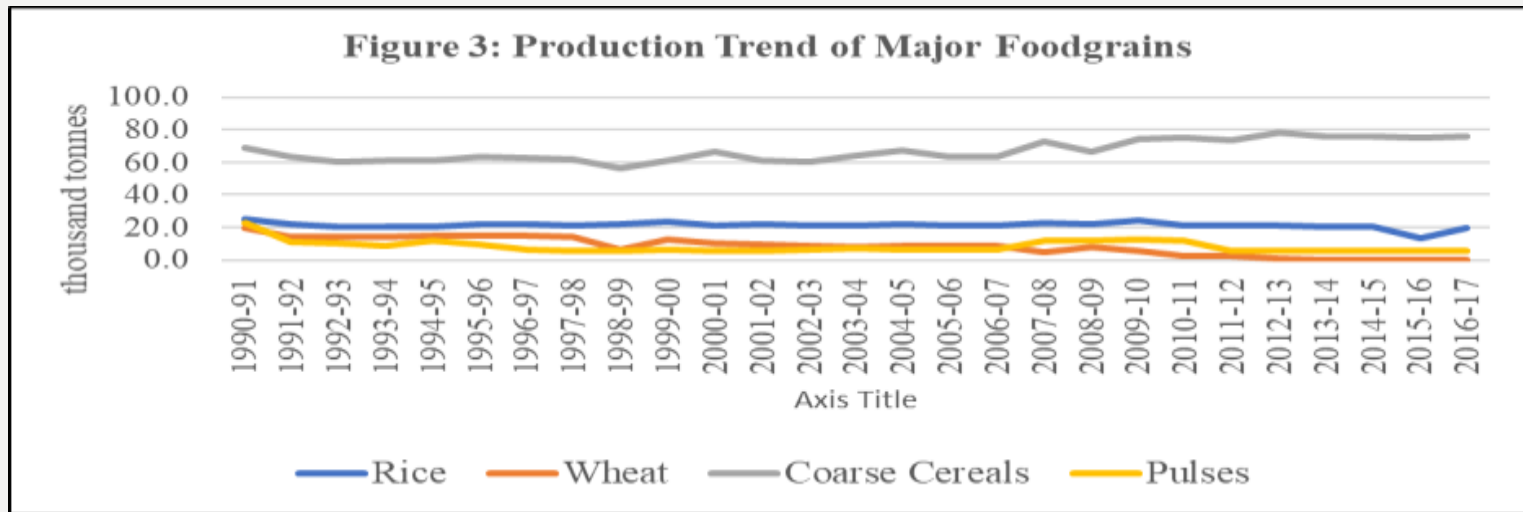


Figure 3: Production Trend of Major Foodgrains



AGRICULTURE – ISSUES



Going Organic

- Increased cost of cultivation including costly organic seeds, organic fertilizers and an added cost of introducing the technical know-how.
- Organic Cultivation in existing small land holdings is likely to reduce production.
- Increased prices of agriculture produce in the local- Organic produce are costly
- Issues of ensuring timely and adequate credit to farmers, input subsidy, minimum support and guaranteed prices, crop insurance, etc. are missing
- Lack of technical know-how, lack of rural infrastructure, absence of market linkages, etc. constitute major impediments to the success of organic farming in Sikkim.

TOURISM- FEATURES



- Sikkim promotes tourism and the government perceives it as a potential sector for absorbing the unemployed and also for augmenting the State revenue
- The growth has been tremendous from a mere 15,000 tourists in 1980 to a whopping 14,24,965 tourist, both domestic and foreign, in 2017.
- A large section of the population is now dependent on tourism and its related activities for their livelihood.
- Sikkim has recently been added on the aviation map with the operation of the airport in Pakyong, East Sikkim in 2018 and proposed rail link to border town in Sikkim is likely to boost this sector
- Sikkim Tourism Policy 2018 is a good initiative

TOURISM- ISSUES



- Haphazard construction, garbage management and vehicular congestion is clouding the idea of transforming Sikkim into an eco-friendly destination.
- Need for High-capacity human resource to be engaged and trained in tourism.
- Needs an integrated and cooperative approach requiring all key stakeholders to participate and contribute.
- On going hydropower projects damaging the natural landscape

HYDROPOWER GENERATION- FEATURES



- Sikkim has natural endowment and the conducive river system with enormous potential for hydropower generation which can augment State revenues.
- Private investment in the hydropower sector, independent power producers (IPPs) has been ushered in these projects on Build Own Operate and Transfer (BOOT) basis since
- The projects, besides in-built revenue sharing arrangement, contains a clause to provide 12% free power to the State for the first 15 years and 15% thereafter until 35 years of project completion.
- The State Power Development Corporation, nodal agency, as on date has awarded 25 hydropower projects to IPPs with a total expected capacity of 5188 MW, which are in different stages of development.
- With the commissioning of 1200MW Teesta Stage III Hydro Electric Project in 2017, the installed generation capacity of the State is expected to reach 2206.7 MW.
- For the Financial year 2016-17, State earned revenue to the tune of INR 1.69 billion from sale of power compared to Rs.0.03 billion for the year 1994 (Sikkim, Finance Revenue and Expenditure Department. (2018-19).

HYDROPOWER GENERATION- ISSUES



- The ongoing construction and operation of hydropower projects has led to a number of negative externalities including diversion of river course which resulted in erosion of fertile agriculture land, reduction of aqua and [animal life](#) that depend on these river channels
- General grievances related to inadequate land compensation, damage to housing, residential displacement, non-participation in the negotiation process, etc. have also emerged
- Lack of strategy in the design of such projects and laxity in monitoring and vigil of project implementation- Comptroller Auditor General Criticism.
- The commissioned hydropower projects, with huge capital investment, are currently at the crucial stage of implementation and of paramount importance for the State in view of revenue generation.

RELATIONSHIP WITH CENTRE



- Sikkim enjoys autonomy and special protection entrenched in Article 371F of the Constitution of India.
- The people are highly dependent on the State for welfare measures.
- Sikkim has been dependent on the Central Government for both its planned and unplanned expenditure as a special category State.
- Post the recommendations of Fifteenth Finance Commission the portion of grant from Central; government has decreased and the share of Central loans to the State is decreasing with the amended FRBM Act,-m dependence of the State Government on market-based borrowing is likely to increase.
- Sikkim has a limited scope in augmenting its local revenue
- There is a need to relook at the current tax incentives and subsidies for industries operating in the State. There is also a need to educate and encourage people to give up income tax exemptions and instead contribute actively to State development.

RELATIONSHIP WITH CENTRE - ISSUES

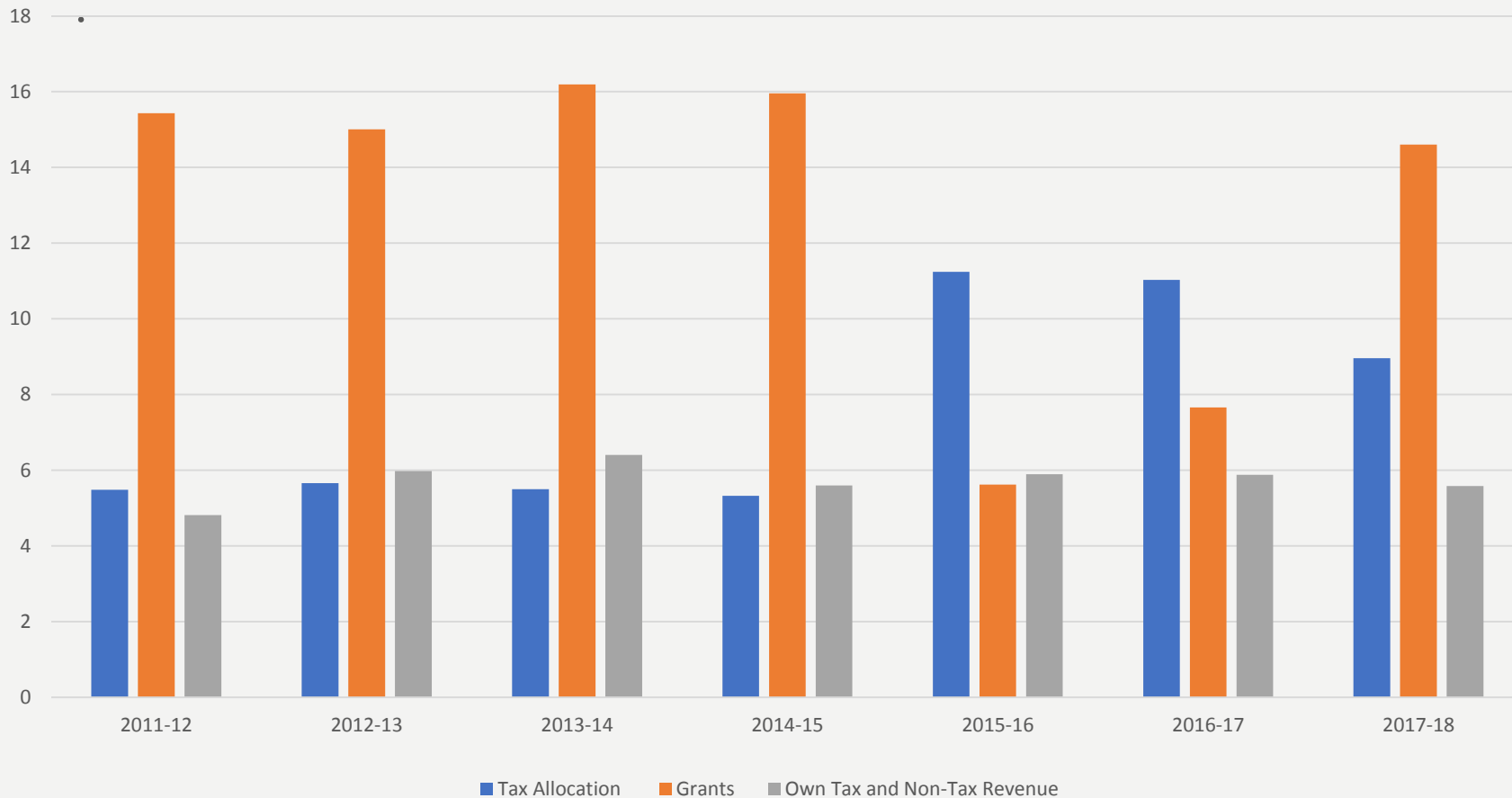


RECEIPT	EXPENDITURE
Tax Revenue	State's Annual Plan
Non Tax Revenue	Non Plan Expenditure
Share in Central Taxes	Centrally Sponsored Schemes
Grant-in-aid from Govt. of India	
Loans from other Institutions & Govt. of India i/c Recoveries	
STIDF & Environment Cess	
Public Accounts (net)	

RELATIONSHIP WITH CENTRE



State Revenue Components as Percentage of SGDP



Source: Finance Accounts and Sikkim State Budget 2018-19

RELATIONSHIP WITH CENTRE - ISSUES



Tax and Non-Tax Components of State Revenue as Percentage of SDGP

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Total revenues	25.72	26.65	28.09	26.88	22.75	24.57	29.14	25.85
Central transfers	20.91	20.67	21.69	21.28	16.86	18.69	23.56	20.44
Own tax revenues	2.63	3.53	3.79	3.47	3.41	3.48	3.34	3.33
State general sales tax	0.00	0.00	0.00	0.00	0.00	0.00	1.06	1.09
Motor vehicle Taxes	0.15	0.13	0.13	0.13	0.13	0.13	0.14	0.13
Other taxes	0.44	0.61	0.67	0.58	0.41	0.50	0.33	0.69
Sales tax	1.11	1.84	2.07	1.85	1.96	1.94	1.02	0.67
State excise Duties	0.86	0.87	0.90	0.86	0.85	0.83	0.73	0.69
Stamp duty and regi. Fees	.07	.04	.05	.04	.05	.07	.06	.06
Income tax	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Non-tax Revenues	2.19	2.45	2.61	2.13	2.48	2.41	2.24	2.08

RELATIONSHIP WITH CENTRE - ISSUES

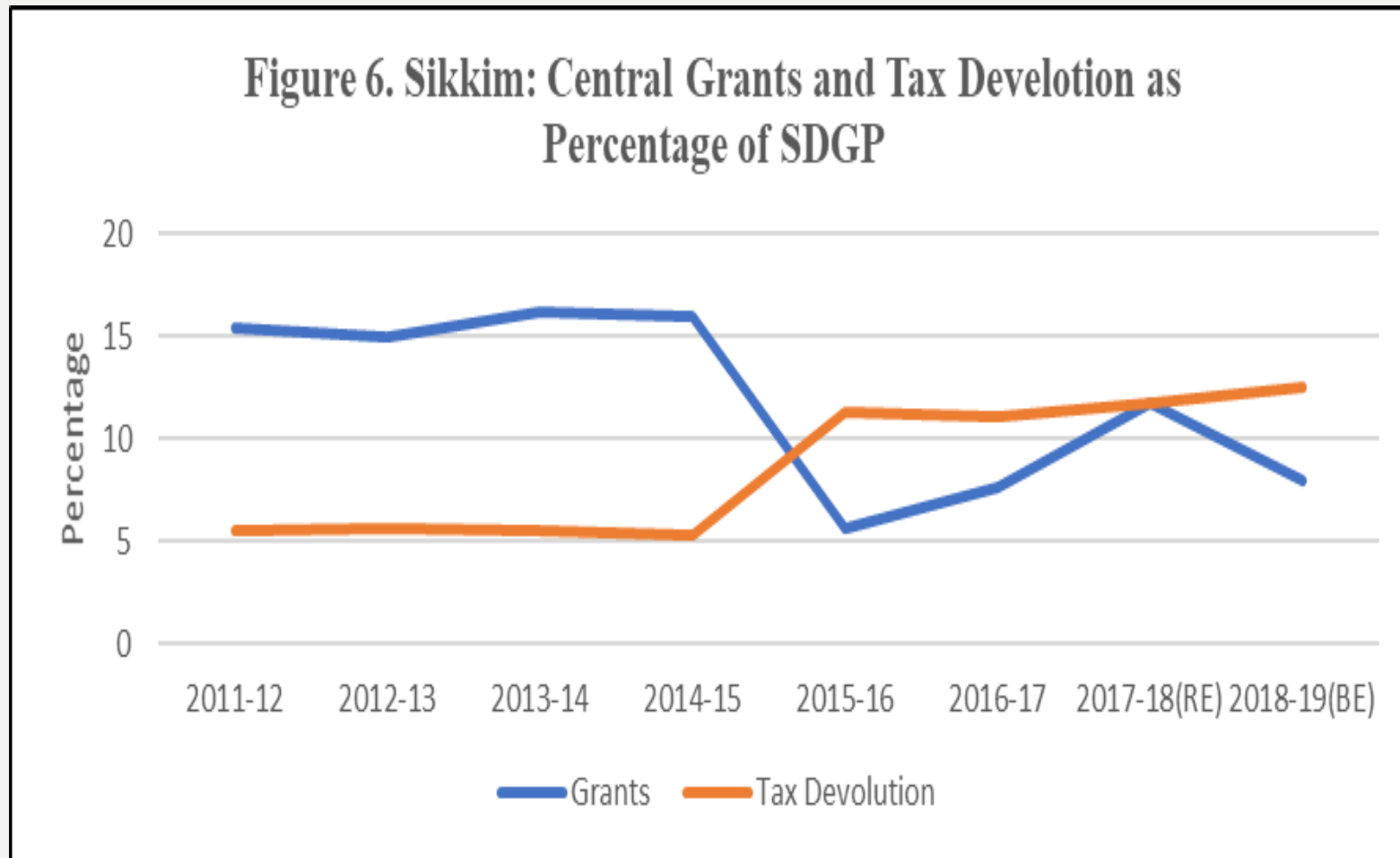


State Current and Capital Expenditure as Percentage of SGDP

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Total expenditure	21.76	20.32	21.82	22.07	21.91	20.19	23.24	23.15
General services	6.74	7.14	7.47	7.98	7.48	7.57	7.84	9.38
Social services	9.24	7.68	9.21	8.41	7.43	7.12	8.24	7.16
Economic services	5.50	5.32	4.89	5.40	6.77	5.21	6.84	6.30
Pension	1.56	1.82	1.88	2.19	2.42	2.38	2.59	2.77
Other	3.47	3.70	3.99	4.22	3.48	3.46	3.52	4.60
Capital outlay	5.52	6.83	6.58	6.45	3.81	3.84	9.32	5.64
Education	4.25	4.17	4.55	4.68	4.54	3.99	4.27	4.19
Interest payment	1.71	1.61	1.60	1.58	1.58	1.73	1.73	2.00
Medical and public health	1.02	1.02	1.04	1.20	1.06	1.02	1.12	1.06
Other social services	3.97	2.49	3.62	2.53	1.83	2.11	2.85	1.90
Assignment to Local Boards	0.28	0.19	0.26	0.28	0.23	0.30	0.32	0.32

Source: Finance Accounts and State Budget 2018-19.

RELATIONSHIP WITH CENTRE - ISSUES



Source: Finance Accounts and Sikkim State Budget 2018-19

CONCLUSION



- Sikkim's participation and influence in policy making at the national level has been limited due to dependency mindset/arrangement.
- The State has not been actively engaged in policy review to measure impacts of various projects implemented in the State.
- Larger role for guiding and supporting the private sector in agriculture, industry and tourism through participatory and inclusive policy dialogues missing.
- There is a need introduce administrative efficiency and good governance by mobilizing trained and motivated technocrats, who must be insulated from political lobbying, in designing future policy frameworks.

CONCLUSION



- Current policy adjustments and will lead to identification of new growth areas.
- Strong commitment to development and clear policy direction should emanate from the government.
- Most importantly, there must be a shift in the mindset of Sikkimese people from privileged ones to self-made actors.
- Change in the thought process should commence both at the educational level through curriculum redesign at schools and colleges, and at the bureaucratic level through training of officials and exposure to the outside world which should instil a sense of ownership and accountability.
- The right strategy and action with strong policy foresight will boost the growth performance of Sikkim.



THANK YOU