

State Level Public Enterprises in Sikkim Policy and Planning

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State Level Public Enterprises in Sikkim

(Policy and Planning)



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Preface

This volume is a modest attempt to study the working of the State Level Public Enterprises (SLPEs) in Sikkim with a point of view to judge their suitability for the retention, closure and privatization in the portfolio of the State. The volume presents a detailed study of each and every enterprise, outlines their strengths and weaknesses and underlines the prospects of these enterprises in terms of their survival. A novel approach has been adopted to complete this study. Besides, an on-the-spot study of all the SLPEs, the Chief Executive Officers (CEOs) of these enterprises were contacted and a rapport was established with the systems controlling such enterprises in the Government. The information collected through questionnaires, interviews, interactions, observations and field visits was juxtaposed on the conceptual framework of restructuring and privatization especially evolved for the study.

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Executive Summary

- The State Level Public Enterprise (SLPEs) are an important component of the economy of the State of Sikkim. 22 SLPEs covered in this study had an investment of Rs 726.06 crore as on March 31, 2004. The time is ripe for the policy makers to have a fresh look about the portfolio for retention of the SLPEs.
- A study of the categorization and objectives of the SLPEs shows that the government company form is the most preferred method of organization used to set up the SLPEs.
- The manufacturing enterprise dominated the overall number of the SLPEs, followed by trade and service, utility, welfare and promotional enterprises.
- In terms of market structure, 11 SLPEs were competitive and an equal number of enterprises were non-competitive.
- The SLPEs had 6036 employees on the muster rolls. The casual and muster roll workers exceeded the number of managerial personnel.
- The utility sector SLPEs accounted for 85 per cent of the total investment followed by manufacturing, financial, promotional, welfare, and trade and service enterprises.
- The financial performance of the SLPEs was discouraging in that they were in the red as a whole and also registered accumulated losses and thereby faced capital erosion.
- The resource use was very low registering a declining trend. It was 14.51 per cent, 14.54 per cent and 14.51 per cent in 2001-02, 2002-03 and 2003-04, respectively.
- The SLPEs were characterized by the presence of sub-standard assets, contingent liabilities and weak professional management.
- There is a need to have a fresh look at the SLPEs portfolio through financial, marketing, human resource development, operations and technological restructuring.
- The Government of Sikkim (GoS) policy on restructuring for the SLPEs includes elements such as rationale, objectives, benefits, criteria and procedure for their disinvestment/privatisation.

- The GoS proposes to privatise/disinvest all non-strategic SLPEs on case to case basis following the criteria laid down to judge as to which enterprise is strategic in nature.
- The SLPEs could be classified for retention and privatisation/disinvestment based on the two dimensional matrix (Market Structure and Financial Success being the two dimensions) and three dimensional matrix (social purpose, resource mobilisation and profitability being the three dimensions).
- The application of the two models provides the same choice for the portfolio for retention of the SLPEs in the State of Sikkim which facilitates our task of outlining the modalities for restructuring and privatisation.
- The application of the restructuring models clearly point out a vast scope for policy and managerial reforms for the SLPEs that are required to be retained in the medium and long-term by the GoS and privatisation/disinvestment of un-strategic SLPEs.
- The application of these models provides eight categories containing 22 enterprises. No enterprise was high on all the parameters. Eight enterprises were low on all the parameters. Fourteen enterprises belonged to the other six categories. The anticipated benefits of the categorization point out that whereas nine enterprises require to be privatised/wound up, the remaining enterprises need to be retained in the public sector. However, the enterprises to be retained need to undergo various kinds of restructuring.
- In view of convenience and ease, the non-strategic enterprises are more amenable for privatisation.
- In order to effect restructuring for privatisation, disinvestment and retention, some legal, accounting and financial requirements need to be fulfilled besides pledging the political commitment.
- A study of the management and operations of the SLPEs reveals that: their social purpose is very low; departmental enterprises dominate the investment scenario; the utility enterprises have a major chunk of investment; their wage cost is very high; no R&D facilities exist in these enterprises; financial and management systems are not in vogue; strengths are far less as compared to weaknesses and so is the case between opportunities and threats; government-enterprise

interface is very low; and most of the enterprises have not formulated performance improvement plans.

- The investments in the SLPEs have become unproductive and cost the GoS Rs 190.52 crore in 2003-04. The returns were negative also in the years 2001-02 and 2002-03. The GoS must unlock the value hidden in the SLPEs by initiating the following measures:
 - A study of the objectives and the profile of the enterprises very clearly reveals the duplication of activities in the case of Sikkim Consumer Co-operative Society, the Denjong Agricultural Co-operative Society, Sikkim State Co-operative Supply and Marketing Federation and State Trading Corporation. *It is suggested that State Trading Corporation Ltd and Sikkim Consumer Co-operative Society be privatised/wound up as they are involved in non-core business activity. The State should not set up any enterprise in future intended to take up a non-core activity.*
 - Although some enterprises serve high social purpose, they duplicate activities or are engaged in non-core activities. The Denjong Agricultural Co-operative Society and Sikkim State Co-operative Supply and Marketing Federation need to be merged to avoid the duplication. The Sikkim Handloom and Handicraft Dev. Corp. Ltd should also concentrate on promotional activities and reduce its direct involvement in sale or manufacturing of handloom and handicrafts items.
 - All the manufacturing enterprises (excepting Sikkim Co-operative Milk Producers Union and Tea Board of Sikkim) have been found low on public purpose, resource mobilisation and profitability. These consist of Sikkim Jewels Ltd, Sikkim Hatchery Ltd, Sikkim Poultry Dev. Corp. Ltd, Sikkim Precision Industries, Govt. Fruit Preservation Company and Sikkim Time Corporation. Sikkim Power Dev. Corp., also forms a part of this category. These enterprises may be privatised/wound up.
 - The utility sector enterprises viz., Sikkim Nationalized Transport and Sikkim Energy and Department of Power form the lifeline of the State and need therefore to be retained in the public sector. However, their corporatisation is necessary. Once they are corporatised,

OPTIMA (Optimal Performance through Internal Management Action) could be introduced in these enterprises.

- The welfare and promotional enterprises have to be continued in the state sector as they deal with the upliftment of the down trodden classes of society and development of certain economic activity. It is in this backdrop that SABCCO, Khadi and Villages Industries Board and Sikkim Tourism Dev. Corp. could be retained in the portfolio of public sector by the GoS.
- The financial enterprises such as SIDICO, State Bank of Sikkim and Sikkim State Co-operative Bank provide financial input for the economic development and hence could be retained. However, they should formulate performance improvement plans for greater effectiveness.
- The suggested status of the SLPEs has been given at Table 6.2.
- The government control and direction relating to the SLPEs in Sikkim is lacking. Although an official of the level of the Director in the Finance Department has been made responsible for coordinating the enterprise-government interface, he is saddled with several responsibilities and finds no time to attend to the issues relating to the SLPEs. The finance department may borrow the services of a surplus official to appoint him as the Director (SLPEs) who may be charged with the responsibility of inter-departmental coordination, preparation of an annual survey on the SLPEs, formulation of management development and training plans, and provide support for clearing the arrears of accounts, etc.
- The Director (SLPEs) should look into the problems of manpower planning, wage policies, internal audit and control systems in the SLPEs. He may work for the introduction of the Memorandum of Understanding (MoU) to remedy the problems of accountability and performance evaluation. He should also organize training in project evaluation and project management.
- To improve the quality of corporate governance the laws governing the SLPEs viz., Registration of Companies Act of Sikkim and the Income Tax Act of Sikkim should be integrated with the laws of the main land.

- The board composition should be balanced with the representation of professional directors, user interests, employee representatives, and the government nominees. The board size should be limited between seven and twelve comprising government not exceeding a number of more than two at the maximum. The position of managing director and chairman needs to be combined. The separation of the post of chairman-cum-managing director has resulted in wasteful expenditure and unhealthy organisational culture.
- For the enterprises to be retained, OPTIMA needs to be introduced to synergies the management action through costing, budgeting, pricing, auditing, MIS, manpower planning and recruitment, training and management development, labour adjustments and performance evaluation.
- To decide about the modalities of privatisation/winding up of non-core enterprises, a restructuring board on the pattern of Karnataka, Maharashtra, Punjab, and Andhra Pradesh, may be set up to deal with each enterprises, in this regard, on case by case basis.
- The GoS may formulate a scheme of social safety net for the SLPEs to provide support to work force affected by labour adjustments. The Director (SLPEs) may be entrusted with the responsibility of formulating and implementing the social safety net programme (SSNP). A special fund of Rs 10 crore may be created for this and other related purposes and placed with Director (SLPEs).
- The total funds requirement for the restructuring of the SLPEs would be Rs 222.03 crore (composed of Rs 236.98 crore of gross restructuring cost –Rs 24.96 crore of restructuring cost of enterprise to be privatised/wound up +Rs 10 crore as the macro restructuring fund to be kept at the disposal of the Director (SLPEs). The GoS may provide a one-time restructuring grant to the enterprises for restructuring. This grant could be disbursed over a period of three years in a ratio of 34:33:33 amounting to Rs 75.48 crore, Rs 73.27 crore and Rs 73.27 crore depending on the urgency, absorption capacity of the enterprise and the availability of the resources with the government.

Policy Matrix

<i>Issue</i>	<i>Proposed action</i>
Investments in SLPEs	<ul style="list-style-type: none"> ● Sound investment appraisal ● Effective project management
Existence of departmental enterprises	<ul style="list-style-type: none"> ● Corporatisation
Presence of non-competitive SLPEs	<ul style="list-style-type: none"> ● Introducing competitive measures such as strategic business units (SBUs), joint ventures, etc. ● Reorganising large enterprises ● Private sector development ● Attracting successful private sector groups
Presence of excessive labour force	<ul style="list-style-type: none"> ● Labour adjustments ● Safety net ● De-linking SLPEs salaries scales from the GoS scales ● Appropriate recruitment policy discouraging appointment of deputationists and also safeguarding SLPEs against becoming dumping ground of personnel lacking competencies
Discouraging financial performance	<ul style="list-style-type: none"> ● Return on investment oriented functioning ● Improved working capital productivity ● Reduction in interest and wage costs

<i>Issue</i>	<i>Proposed action</i>
Nationalisation of tariff structure	<ul style="list-style-type: none"> ● Cost oriented prices ● Cost audit ● Social purpose cost reimbursement ● Restraint on cross subsidization
Low resource use	<ul style="list-style-type: none"> ● Increase in market share ● Product/service development ● Customer relationship management ● Reduction in fixed and working capital
Poor accounting systems	<ul style="list-style-type: none"> ● Timely finalization of accounts ● Greater disclosure ● Professional accounting staff
Retention of SLPEs in public portfolio	<ul style="list-style-type: none"> ● Low social purpose, low resource mobiliser, low or no profit earning SLPEs could be privatised/wound up ● High social purpose, high resource mobiliser, high profit earning SLPEs could be retained ● SLPEs in other categories could be restructured ● Promotional, financial and welfare enterprises should continue to be retained ● Embargo on new non-core enterprise
In-productivity of investments	<ul style="list-style-type: none"> ● Enterprises duplicating activities could be merged ● Non-core enterprises could be privatised/wound up ● Initiation of Performance improvement plans
Weak Government control and direction	<ul style="list-style-type: none"> ● Services of an officer be used as the Director (SLPEs) who may be assigned the responsibility of: <ul style="list-style-type: none"> ○ inter-departmental co-ordination, ○ preparation of annual survey on the SLPEs,

<i>Issue</i>	<i>Proposed action</i>
Unsatisfactory quality of corporate governance	<ul style="list-style-type: none"> ○ formulation and implementation of management and development plans, ○ provided support for clearing arrears of accounts, ○ Manpower planning, ○ Wage policies, ○ Internal audit and control systems, ○ Introduction and implementation of MoU ● Training in project evaluation and management ● Integration of the Registration of Companies Act of Sikkim and Income Tax Act of Sikkim with the central acts. ● Balanced composition of boards ● Combining the post of Chairman and Managing Director to Chairman-cum-Managing Director
Systemic weakness	<ul style="list-style-type: none"> ● Introducing Optimum Performance Through Internal Management Action (OPTIMA) ● Introducing/strengthening internal audit, budgeting, pricing, performance evaluation and MoU systems ● Replacing paternalistic style by modern management models.
Modalities of privatisation of non-core enterprises	<ul style="list-style-type: none"> ● Setting up a restructuring board on the pattern of Karnataka, Punjab, Maharashtra and Andhra Pradesh to approve modalities on case-by-case basis
Social Safety Net Programme (SSNP)	<ul style="list-style-type: none"> ● Director (SLPEs) be entrusted with the responsibility of SSNP ● A special fund of Rs 10 crore be created for SSNP and other related purposes

Sikkim: Socio-Economic Profile

1.1 History of Sikkim

Sikkim was inhabited in pre-historic times by three tribes namely Naong, Chang and the Mon. Later, Lepcha entered the state and the tribes completely. The origin of Lepchas reveals that they belonged to the clan of the Nagas of the Mikir, Garo and Khasia hills which lie to the south of the Brahamaputra valley i.e., somewhere on the borders of Tibet and Burma. Later many kings from Bhutan, China, Tibet invaded the State till 19th century. During 19th century, the defeat of Nepalese by the Chinese did little to weaken the expansionist designs of the Nepal. The Nepalese continued to make attacks into the neighbouring British territories in India. British India successfully befriended Sikkim. They felt that by doing so the 74 expanding powers of the Gorkhas would be curtailed. Britishers were keen in establishing trade link with Tibet and the route through Sikkim was the most feasible one. The war between Nepal and British India broke out in 1814 and came to an end in 1816 with the defeat of the Nepalese and the subsequent signing of the Treaty of Sugauli. British India signed another treaty with Sikkim in 1817 known as the Treaty of Titalia in which former territories, which the Nepalese captured, were restored to Sikkim. During 1884, Britishers explored the possibility of trade routes to Tibet through the Lachen Valley. The Britishers started building of roads in Sikkim. This was viewed with suspicion by Tibet and in 1886, some Tibetan militia occupied Lingtu in Sikkim near Jelepla pass. In May 1888, the Tibetans attacked Gnathang below Jelepla but were driven away. In September of the same year the British called for reinforcements

and the Tibetans were pushed back from Lingtu. The Britishers appointed Claude White as the first political officer to Sikkim during 1889 and Chogyal Thutob Namgyal was virtually under his supervision. The growing Russian influence in Tibet, the British sent an expedition in 1904. The expedition met with resistance from the Tibetan army, which was defeated, and a treaty was dictated by Younghusband on Tibet. The Treaty secured monopoly-trading privileges in Tibet for the British India.

After 1947, India became independent. Tashi Namgyal was successful in getting a special status of protectorate for Sikkim. This was in face of stiff resistance from local parties like Sikkim State Congress who wanted a democratic setup and accession of Sikkim to the Union of India. The treaty signed between India and Sikkim ratified the status of Sikkim as a protectorate with Chogyal as the Monarch. Tashi Namgyal died in 1963 and was succeeded by his son Palden Thondup Namgyal. There were rumbling in the political ranks and file of the State in 1970, which demanded the removal of Monarchy and the establishment of a democratic setup. Finally culminated in wide spread agitation against Sikkim Durbar in 1973. There was a complete collapse in the administration. The Indian Government tried to bring about a semblance of order in the State by appointing a Chief Administrator Mr. B. S. Das. Further, events and election led to Sikkim becoming transformed from a protectorate to an associate State. On 4th September 1947, the leader of Sikkim Congress, Kazi Lendup Dorji, was elected as the Chief Minister of the State. However, the Chogyal remained as the constitutional figure head monarch in the new setup. Events leading to the confrontation between the Chogyal and the popular Government caused Sikkim to become a full-fledged 22nd state of the Indian Union on 16th May 1975. The Institution of Chogyal was subsequently abolished.

Since then Sikkim has been a State of the Indian Union. In the 1979 assembly elections, Mr. Nar Bahadur Bhandari, was elected as the Chief Minister of Sikkim.

1.2 Sikkim: An Overview

The total area of Sikkim is 7,096 sq. km. Sikkim covers barely 0.22 per cent of the total geographical area of India, but offers avenues for the intrepid investor, which few others can match. Lying

between 27 to 28 degree North latitude and 88 to 89 degree East on longitude, this Himalayan State is bordered by West Bengal on the South, China on the North, Nepal on the West and Bhutan on the East. The land is criss-crossed by energetic mountain streams, extravagant valleys and decorated by a profusion of exotic orchids and the brilliant rhododendrons.

The 2001 Census of India records Sikkim's population at 5,40,493. Literacy stands at an impressive 65.1 per cent with the State Government continually focusing on improving it further. In 1991, Sikkim ranked first in its rural literacy rate, which stood at 61.4 per cent then and has improved since.

1.3 Natural Resources and Economic Profile

The main crops produced in Sikkim are Rice, Wheat, Maize, Cardamom and Ginger. There are also a plethora of exotic flowers and orchids that grow wild in Sikkim forests and can be easily incorporated into greenhouses by intelligent entrepreneurs. The environment is unpolluted and the State is committed to heralding industrialization without tampering its ecological balance. Abundant hydro-power potential of 8,000 MW, promising tourism potential, high literacy rate, vast natural resources like an impressive forest cover and lavish mineral deposits are clear indicators that Sikkim is making steady headway towards all round development. Animal husbandry and Agriculture continue to be the mainstay to the people's livelihood with even the existing industries capitalizing on Sikkim's agro-based and handicrafts potential. The banking sector is well developed in the State with almost all nationalized banks having a branch in Sikkim and new ones opening up offices here in impressive frequency. A full-fledged industries and commerce department is also in place to help any interested investor and an industrial policy has also been framed and implemented in the State. The State has good resource base of minerals like zinc, lead, copper, dolomite, coal quartzite, graphite, talc etc. Commercial exploitation of some of these minerals was carried out by the state agencies.

1.4 Economic Growth and Development

Economic development in Sikkim, as indicated by the growth rate

of the State Domestic Product (SDP), has been very impressive, averaging almost 10 per cent per annum, over the past two decades. In spite of a relatively high growth of population of 2.85 per cent per annum during 1981-91 and 3.30 per cent per annum during 1991-2001, per capita income has increased by almost a hundred and fifty per cent during this period. High growth rate has been sustained during the 1990s. According to the Tenth Plan of the State, Gross State Domestic Product (GSDP) growth has been over seven per cent and per capita income growth three and a half per cent per annum over the period 1993-94 to 1999-00 (PDD, 2001). Sikkim's performance in the spheres of education and health has also been impressive. As a result, Human Development Index (HDI).

Table 1.1 shows the sectoral plan allocation in Sikkim since 1954-2002. In the first Seven Year Plan (1954-61) and the two Five Year Plans (1961-66 and 1966-71), which were financed by the Government of India, planned development was outside the revenue-expenditure processes of the State Budget. In the Ninth Five Year Plan, as compared to Rs 32.4 million in the First Plan, it increased to Rs 16 billion (about 500 fold). This is also almost 122 per cent increase over the Eight Plan outlay of Rs 7.2 billion.

Agriculture and allied activities have been the mainstay of the majority of the people receiving on an average 20 per cent of the total plan outlay up to the Seventh Plan. Since then this crucial sector's share has shown a tendency to decline, being as low as 13.6 per cent in Eight Plan. Power Sector has a share of almost 20 per cent—double of what it was during the entire plan period since 1954. The other vital infrastructural area of roads and bridges has fallen to less than 10 per cent. Further, though some social sectors, e.g. education, have improved their share, allocation to health has been low. The expenditure on social services amounted to 2.0384 billion in 1999-00, which represented 13.19 per cent of the total revenue expenditure.

1.5 Net State Domestic Product

The economic growth at a macro level is reflected both in its GDP and per-capita income. Table 1.2 shows that both GDP and per capita income at constant prices recorded a steady increase during the period from 1980-1992, the highest growth in 1987

Table 1.1: Sectoral and sub-sectoral plan allocation in Sikkim (1954-2002)

Sectors	I Plan (1954- 61)%	II Plan (1961- 66)%	III Plan (1966- 71)%	IV Plan (1971- 75)%	V Plan (1974- 79)%	VI Plan (1980- 85)%	VII Plan (1992-97)	VIII Plan (1992- 97)%	IX Plan (1998- 02)%
Agriculture & Allied Activities	21.5	20.0	15.0	14.2	15.9	26.0	21.1	13.6	17.1
Power	9.2	8.3	7.3	8.8	10.0	9.4	17.4	24.9	19.4
Industries	4.3	0.5	6.7	3.5	6.6	4.2	4.0	3.85	4.2
Roads & Bridges	42.8	40.5	43.4	36.3	26.1	22.3	6.4	14.8	9.6
Road Transport	5.2	6.9	4.1	3.5	3.1	4.9	3.2	1.85	0.8
Education	7.4	12.4	7.9	8.8	7.4	7.0	12.2	10.7	12.5
Health	7.1	7.2	9.4	4.1	4.5	3.5	2.5	1.11	3.1
Tourism	-	0.8	0.4	4.4	2.0	1.5	0.9	15.2	3.59
Others*	2.5	3.4	5.8	16	24.4	21.2	32.3	14.0	29.7
Total Outlay (Rs Millions)	32.4	63.7	97.1	203.6	401.0	1478.0	2824.0	7245.0	16028.0

Note: *Others include rural development, irrigation and flood control, communications and other social, general and economic services

Source: Computed from various Plan Documents, Government of Sikkim, Gangtok.

Table 1.2: Sikkim: Net State Domestic Product and Per Capita Income at constant prices

<i>Years</i>	<i>Domestic Product (Rs thousand)</i>	<i>Annual Growth Rate %</i>	<i>Per capita income (Rs thousand)</i>	<i>Annual Growth Rate %</i>
1980-81	489,800	—	157,100	—
1981-82	521,900	6.55	161,100	2.55
1982-83	588,200	12.70	175,000	8.63
1983-84	614,200	4.42	175,800	0.46
1984-85	694,600	13.09	191,900	9.16
1985-86	755,900	8.82	201,700	5.11
1986-87	891,700	17.96	229,700	13.88
1987-88	1075,500	20.61	267,800	16.59
1988-89	1149,000	6.83	292,400	9.19
1989-90	1228,900	5.51	311,800	6.63
1990-91	1353,200	10.11	336,900	8.05
1991-92	1442,900	6.63	349,200	3.65

Source: Ministry of Finance, Economic Survey, Government of India, various issues.

1.6 Industrial Policy and Infrastructure

The Industrial sector was not well developed in Sikkim during the pre-merger period. Distillation of wines and liquors was one of the first modern industries established at Singtam in 1955, providing employment to 30 managers and 150 labourers by the Third Plan period. This distillery was equipped with the state-of-the-art equipment and served both domestic and overseas markets. The other undertaking that for yours was a flagship company' was the Government Fruit Preservation Factory also set up at Singtam in 1956. This factory utilized the ample orange production in the State, cutting down wastage in transit and storage locally, and eliminating middlemen.

There are no Central Public Sector Undertakings in Sikkim. However, the Industry Department shows that there are 1360 units which have been granted provisional registration from 1976 onwards. Out of these, less than 300 Small Scale Industries and tiny units have begun to function. Over 72 per cent of these units are located in the East district. Table 1.3 shows region wise Registered Small Scale Units since 1975.

Table 1.3: Registered Small Scale Industries/Units

<i>Period</i>	<i>East</i>	<i>North</i>	<i>South</i>	<i>West</i>	<i>SSI/Tiny Units</i>
1975/76-79/80	7	2	–	1	10
1980/81-84/85	7	4	2	13	–
1985/86-89/90	56	4	14	9	80
1990/91-94/95	84	1	18	11	115
1995/96-98/99	60	–	13	6	79

Source: Government of Sikkim, Department of Industry, Gangtok.

1.7 Sikkim's Industrial Policy 1996

In view of the Government for speedy industrial development and generation of adequate employment opportunities through self-employment, a comprehensive industries policy for Sikkim has been formulated as follows:

Policy Objectives

The policy envisages:

- Creation of an atmosphere conducive to industrial growth, taking into consideration the availability natural resources and the local socio-economic environment.
- Maintenance of the Green State image while promoting industrial activities.
- Rehabilitation of sick industries with comprehensive assistance and guidance from the Department of Industry and privatisation of selecting State Public Sector Undertaking.
- Enrichment of the agricultural sector through the establishment of appropriate linkage between agriculture and agro-based industries.
- Ensuring balanced regional development through promotion of Khadi, Village, Cottage and Tiny, Small and Ancillary industries.
- Promotion of the traditional handloom handicrafts and artisan sector, by providing adequate support in the form of common facilities like service centers cheap raw material, technical inputs, marketing network skill development, etc.

- Development of tourism as an industry.
- Development of Sikkim as a major centre for manufacture and marketing of tea.
- Rapid Development of basic infrastructure so that industrial growth is facilitated.
- Encouraging self-employment and identification of avenues for the same by providing guidance through data bank of project-profiles and other related information.
- Promote and encourage high-value, low-volume products, in view of the transportation-bottlenecks in the States.
- Human resource development through appropriate skill and entrepreneurship development programmes behavioural training etc. at district sub-division and block level, to meet the emergent skill requirements of the State within a stipulated time frame.
- Protection and promotion of interest of the local people especially at the unskilled and semi-skilled levels by defining norms for a minimum percentage of employment to the local people in the industrial units.
- Encouraging joint ventures between local entrepreneurs and industrialist from outside the State for setting up industries within industrial belt area.
- Simplification of procedures and opening up of Sikkim with a view to attract both internal and outside the State for setting up of industries within industrial belt area.

Strategy for Implementation of the Policy

The objects set out in the industrial policy challenging and require a well-defined strategy implementation. The government proposes to achieve these objectives by pursuing the following strategies:

- Identification of thrust areas and effective promotion of industries in these areas.
- Announcement of attractive package and fiscal incentives.
- Special promotional measures for rural and traditional industry.
- Establishing industrial estates and growth centers to facilitate integrated development of industry.
- Development of rehabilitation package for the industries.

- Revamping the public sector undertakings.
- Creation of appropriate organization arrangements.
- Development of marketing support systems.
- Development of appropriate training facilities.
- Creation of single window agency.

Identification of Thrust Areas

The State has identified certain thrust industries for concentrated industrial development, which will enjoy additional incentives, and are as follows:

- Agro-based industries
- Floriculture
- Animal Husbandry and Dairy Products
- Minor Forest Based Produce
- Handloom, Handicrafts and Village Industries
- Tourism
- Precision oriented, high value, low volume products
- Electronic and software
- Hydel Power
- Tea

Attractive Packages and Fiscal Incentives

To generate an entrepreneurial spirit and encourage investments in industry, the Government announces an attractive package of incentives and facilities, keeping in mind the increase in competition among the various States.

Special Promotional Measures for Rural and Traditional Industry

The rural non-farm sector has been identified as critical area for achieving national goals and for the creation of employment. This also provides for generation and distribution of income to the backward rural districts of any state. Rural industries comprise enterprises owned by rural entrepreneurs in agricultural and semi-urban regions and are sub-sectors of small scale enterprises and constitute micro enterprises. Some potential areas include flower procession, hereby processing, sericulture, spices and oilseeds

processing, cane and bamboo products, power etc. Special promotional measures will be undertaken by the State Government to strengthen these sectors.

Traditional industries like Cottage, Handlooms and Handicrafts and Khadi Industries will be further encouraged. A comprehensive review of the existing institutional arrangement has been undertaken and suitable measures adopted for achieving the policy objectives. The Sikkim Khadi and Village Industries Board is proposed to be revamped.

Industrial Estate and Growth Centre to Facilitate Integrated Development of Industry

The government has encouraged the setting up of self-contained industrial estates and growth centers to facilitate an integrated approach towards optimization of available resources and infrastructure, including creation of infrastructure, marketing facilities and communication networks. The responsibilities related to infrastructure development is undertaken by the Directorate of Industries and the efforts are being made for the development of supportive infrastructure like roads, power, water supply etc. for such estates. Adequate budget provision has been allotted for this purpose by the viable units.

Development of a Rehabilitation Package for the Sick Industries

There are large numbers of sick industries in the state and the government intends to introduce enterprise specific schemes for their rehabilitation. The viability of each unit is proposed to be individually studied to determine whether it should be operated by the original promoters, new management, as joint ventures with the government. A model rehabilitation package has been developed for the rejuvenation of the viable units.

Revamping the Public Sector Undertakings

The government proposes to undertake the review of ventures only in the core sectors and in keeping with the policies of the Central Government, some of the public sector undertaking are proposed to be privatized. The state enterprises in the core/thrust

sectors are proposed to be revamped to improve their efficiency and functioning.

Sikkim Industrial Development and Investment Corporation is to play a more active role in the industrialization process in the state. It is engaged in providing escort services to entrepreneur proposing to set up projects valued at Rs. 50 lakhs and above.

Organizational Arrangements

The strategy for industrial development is proposed to be achieved when it is implemented through appropriate organizational facilities. Industrial promotion in Sikkim will be handled by the Director of Industries. The promotion of individual sectors like handlooms, handicrafts, agriculture etc. will be the responsibility of the respective departments in coordination with the Director of industries.

Re-organization of the Directorate of Industries

The Directorate of Industries plays a key role in facilitating and co-ordinating activities related industrial development. The services to be provided by District Industries Centres are intended to include area planning for rural industrialization, activity on finance, organization production, technology and marketing assistance for submission of loan applications, speedy clearance for new industries, project supervision and management training programmes etc. The District Industries Centre, also promotes and encourages creation of representation organization to offer services on market information, marketing quality testing, production development, processing etc. Design and Service Centres have been created under the District Industries Centre to provide designs and know-how for the development of suitable products by engaging technically qualified personnel at the block level. Community poly-techniques are being involved in efforts of skill up-gradation, development of work culture, technology orientation creation of pilot project, with the help of voluntary organizations.

The Rehabilitation Cell of the Department of Industries, along with Sikkim Industrial Development and Investment Corporation, actively participates in analyzing the viability of the sick units in

the State and suggest measures for their rehabilitation.

A Public Enterprises Cell has been constituted in the Directorate of Industries to oversee the efficient functioning of the public sector units and formulate guidelines for their employees and fund management and organizational and structural adjustments.

The Industries Training Institute have been brought under the purview of the Directorate of Industries to improve its functioning and impart training as per the requirement of the industries in the state.

Sikkim Investment Promotion Committee

A high powered Sikkim Investment Promotion Committee (SIPC) has been constituted with the Chief Secretary of the State as its Chairman and the concerned Department Secretaries as other Board members, along with the Development Commissioner, Finance Secretary, Secretary Industries and Director Industries.

On receiving a proposal whose total project cost is greater than Rs 75 lakhs from any department or public sector unit, the Directorate of Industries undertakes a critical assessment of the proposal and forward it to SIPC with its recommendations. Proposal cleared by SIPC are only be placed in the Council of Ministers for a decision.

Development of Marketing

There are a number of marketing organizations in the State such as the State Trading Corporation of Sikkim, Sikkim State Co-operative Supply and Marketing Federation Ltd. In addition, a Marketing and Export Promotion Council (MEPC) is proposed to be set up to support the sale of goods within and outside the State. It will be the apex agency for the issues of detailed guidelines for marketing activities in the State.

Policy Interventions and Suggestions

The Government of Sikkim constituted a Task Force under the Chairmanship of Commissioner-cum-Secretary, Department of Industries on 15-5-1999. The Task Force recommendations of indicate the changing face of policy interventions in the industrial

sector of the State. The following some of the important recommendations are:

- The State Government must coax the primary sector into generating surpluses so that the purchasing power can come into the hands of the rural masses and in turn fan industrial growth.
- It is estimated that Sikkim needs to generate about 6,500 jobs per annum.

1.8 New Industrial Policy, 2003

In the New Industrial Policy 2003, the Government of Sikkim has requested for a special package for development of industries in the state on the lines for the North East Industrial Policy. The Government had discussions on Strategy and Action Plan for Development of Industries and generation of employment in the State of Sikkim were held with the various related Ministries on the issues *inter alia*, infrastructure development, financial concessions and easy market access.

The State of Sikkim lags behind in industrial development, a need has been felt for structured interventionist strategies to accelerate industrial development of the State and boost investor confidence. The new initiatives would provide the require incentives as well as an enabling environment for industrial development, improve availability of capital and increase market access to provide a fillip to the private investment in the State. New industrial units and existing industrial units on the substantial expansion as defined, set up in Growth Center, Industrial Infrastructure Development Centers and other locations like Industrial Estates, Export Processing Zones, Food Parks, IT Parks, etc. as notified by the Central Government are entitled to 100 per cent income tax and excise duty exemption for a period of 10 years format the date of commencement of commercial production.

1.9 Conclusions

Sikkim is an important state in the north-east. It is endowed with a very high potential of industrial development. It has is an

emerging state tremendous natural resources in the form of water, people, vegetation and land. With the opening of Nathula pass, the trade links between India and China will receive a great boost and is expected to result in lifting the tempo of industrial development of Sikkim to new levels.