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Ministry of Finance
Department of Expenditure
Finance Commission Division

**Guidelines for release and utilisation of Grants-in-aid for Forests
based on the award of the 13th Finance Commission (FC-XIII)**

Its terms of reference required FC-XIII to have regard to the need to manage ecology, environment and climate change consistent with sustainable development, while making its recommendations. FC-XIII has recommended, inter-alia, a grant to all states for **Forests**, aggregating Rs.5000 crore for its award period 2010-15 (as per Annex 12.2, page 454, vol. 2 of FC-XIII's Report). Government has accepted this recommendation along with conditions stipulated by FC-XIII.

2. The broad objectives of the grant-in-aid for Forests are to provide the wherewithal for preservation, so as to halt and reverse past declines in the quantum and quality of area under forest; and to provide fiscal resources by which the state can enable alternative economic activities as a substitute for economic disability imposed by forest cover.

3. While recommending this grant, FC-XIII has, inter alia, observed:

(i) Forests constitute the first line of defence against pollution resulting from economic activity, whether of agricultural or industrial origin. In recognition of this, FC-XII provided a grant of Rs.1000 crore, to be distributed among states in accordance with the share accounted for by each State in the total forested acreage in the country. There is a need to carry that grant forward.

(ii) Forests provide a wide variety of services, like carbon sequestration; sediment control and soil conservation; ground water recharge; protection from extreme weather events and preservation of bio-diversity. By their very nature these services accrue beyond the boundaries of the state in which the forests lie. While standing forests provide benefits exclusively to the State concerned, from forest produce and recreational services, there are national restrictions on timber felling which impose costs of having land under forests on the states. There are restrictions on diversion of forest lands for non-forestry purposes without prior approval from Gol. In its order of 12 December 1996, the Supreme Court restricted irregular felling

of forests and mandated management of forests according to a scientifically prepared working plan, approved by Gol. The combination of benefit externalities and internalised costs calls for federal compensation. Accordingly, the forest grant is calibrated to the share of the national forested area falling in a state, as well as to economic disability on the basis of the percentage of forested area in each state, within the overall fiscal constraint governing transfers to states over FC-XIII's award period.

(iii) There is already a national provision for compensatory afforestation and Net Present Value payments when land under forests is diverted to non-forest uses for industrial or other purposes. These payments flow into a Compensatory Afforestation Fund Management and Planning Authority (CAMPA). This body has been authorised to release about Rs. 100 crore annually to the respective states' CAMPA for the next five years. In contrast to CAMPA flows to states, which are in the nature of compensation to states for diversion of forest land, the forest grant recommended by FC-XIII is calibrated to the extent of standing forest in each state. It is hoped that states will thereby see the advantages of retaining land under forest cover and will efficiently and effectively direct CAMPA funding towards afforestation, so as to reap the advantages of future provisions of the kind started by the present Commission.

4. **Conditions for release of the grant:**

- i) The grant will be released in five annual instalments in the first quarter and not later than July of each year.
- ii) The grants will be released without any conditions and be untied for the first two years, 2010-11 and 2011-12. However, priority should be given to preparation of working plans for all forest divisions of the State.
- iii) States will have to develop working plans within a stipulated period of two years. This has been stipulated as enabler of governance capacity within the state, so that subsequent use of the grant, coming on-stream two years into the projection horizon, is based on a detailed plan. These working plans will provide a benchmark data base to assess changes in forest cover overtime. Each working plan will have customary horizon of ten years.

