

Fiscal Federalism Makes it Easy to Go Green

Rita Sharma



A view of the hills in Uttarakhand. Tribune photo

The table below shows the comparative formulae adopted by the 13th and 14th FCs for the sharing of Union tax revenues by the states.

Criteria & weights for financial devolution to states

Variables	13th Finance Commission	14th Finance Commission
Population (1971)	25.0	17.5
Demographic change (2011)	0	10.0
Income Distance	47.5	50.0
Area	10.0	15.0
Forest Cover	0	7.5
Fiscal Discipline	17.5	0
Total	100.0	100.0

SOURCE: REPORTS OF THE 13TH AND 14TH FINANCE COMMISSIONS

Forest cover and tree cover outside forests in selected states

Sl States No.	% Forest Area to Geographical	% Tree Cover Outside forests Area	Sl No.	Bifurcated States Area	% Forest Cover	% Tree Outside Forests
1 Punjab	3.5	3.0	7	Bihar	7.7	2.3
2 Haryana	3.6	2.9	8	Jharkhand	29.5	3.3
3 Rajasthan	4.7	2.3	9	Uttar Pradesh	6.0	2.9
4 Gujarat	7.5	4.3	10	Uttarakhand	45.8	1.3
5 Delhi	12.1	7.9	11	MP	25.1	2.3
6 HP	26.4	1.3	12	Chattisgarh	41.1	2.6

SOURCE: INDIA STATE OF FOREST REPORT 2013

The World Environment Day today is an appropriate occasion to flag prominently the recent green formula of the 14th Finance Commission. The determinants for fiscal transfers to the states have been recast.

FOR the first time, apportionment of central tax revenues between the 29 states will be based upon how much forest they have maintained. This new dispensation provides an annual forest finance incentive of about Rs 55,000 crore (\$ 9 billion) for improving and enhancing tree cover in India — a giant leap for a country which has one in every six persons on the planet, but only one tree in every 60. Such spending on forest conservation is higher than any other country in the world.

Forest-based livelihoods

This greening of fiscal federalism was somewhat lost in the din of the other major awards of the 14th FC increasing the share of central tax revenues to the states from 32 per cent to 42 per cent, which got trumpeted as a major step for strengthening cooperative federalism. On a quieter note, it is the watershed reform in the horizontal devolution of the 42 per cent of resources, earmarking a 7.5 per cent weight for forest cover, that will have far-reaching benefits for forest-based livelihoods, environmental protection and the capacity to combat climate change.

Ecological benefits

The 14th Finance Commission, in this game-changing step, recognised the critical role of forests and trees in providing vital products and services along with huge ecological benefits. The new allocation formula is no longer based merely on population, area and income but also factors in the state's forest cover. Through the instrument of inter-se financial transfers to the 29 States, (i) forested states will be proportionately compensated for the opportunity cost of forest area not available for other economic activities; and (ii) lesser forested states will be encouraged to enhance their forest cover.

Stabilising the climate

Forests have regulated the climate, rain, groundwater, soil of the earth over millennia. Their transpiration balances the oxygen and carbon-dioxide in the atmosphere: the world's forests and forest soils currently store more than one trillion tons of carbon — twice the amount found in the atmosphere. Indeed, forests stabilise the climate in general. Trees provide cleaner water, purify the air, produce food, fodder, fuel, fibre and timber. Trees enrich the soil by recycling the nutrients through the shedding of leaves and seeds. They also regulate the water cycle by absorbing and redistributing rainwater. Forests enhance biodiversity and provide the biggest genes reservoir. They act as major sinks by sequestering carbon from the atmosphere thereby mitigating the adverse effects of greenhouse gas emissions.

Share of green fiscal pie

An annual fiscal transfer of about Rs 55,000 crore for forests, surpasses the annual budget of MGNREGA, the other mega programme for employment generation and natural resource conservation. This is bound to

compel the state governments to focus their effort on how to increase their forest cover for ensuring a greater share of the green fiscal pie.

The total forest area reported in the biennial Report 2013 of the Forest Survey of India is about 70 million hectares (21.2 per cent of geographical area). The tree cover outside forests is about 9 million hectares (2.8 per cent of geographical area). Most of the North-Eastern states have forest cover over 75 per cent; they will gain significantly from the new dispensation.

The table shows in selected states, the percentage “forest cover” and “tree cover outside forests”. States such as Uttarakhand (45.8 per cent), Chhattisgarh (41.1per cent), Jharkhand (29.5 per cent), Himachal Pradesh (26.4 per cent) will be the beneficiaries of this devolution. Punjab (3.5 per cent), Haryana (3.6 per cent) Uttar Pradesh (6.0 per cent) and Bihar (7.7 per cent), with their meagre forest cover, will not benefit as much. Uttar Pradesh and Bihar, after bifurcation, lost their considerable forest area to Uttarakhand and Jharkhand, respectively. It is noteworthy that the 7.5 per cent weight to forest cover awarded by the 14th Finance Commission is restricted only to forest cover and does not include tree cover outside forests.

The fiscal arithmetic engineered by the 14th FC is quite persuasive. For states such as Punjab and Haryana, UP and Bihar with low forest cover the ideal situation would be to bring more area under forest cover. However, the ground reality is that in these intensively cultivated states, there is not very much land left to bring under reserved and protected forests.

Green India Mission

Indeed, this has also been acknowledged at the national level. The Green India Mission under the National Climate Action Plan aims to increase tree cover from 23 per cent to 33 per cent. But, it is also recognised that additional tree coverage implies a combined effort of restoring degraded natural forests as well as increasing tree cover outside forests, both on public and private lands.

There is immense potential for increasing tree cover outside forests through agroforestry, social forestry, silvi-pastures, tree plantation in urban and peri-urban areas. With satellite imagery and remote-sensing technology, it is feasible to estimate credibly the tree cover outside forest areas. Indeed, the Forest Survey of India distinguishes between forest cover and tree cover outside forests and records them separately in its biennial reports.

Land-use systems

Agroforestry systems include both traditional and modern land-use systems, where trees are planted together with crops and or/ animal production systems. In addition to its contribution to food, nutritional and income security, agroforestry has the potential to enhance ecosystem services through carbon storage, prevention of deforestation, biodiversity preservation, and soil and water conservation. In addition, when

strategically applied on a large scale, with the appropriate mix of tree species, agroforestry enables agricultural land to withstand extreme weather events, such as floods and droughts, and climate variability.

The National Agroforestry Policy announced by the UPA Government in February 2014 has been built upon and taken forward by the NDA. Har medh par pedh (trees on every field boundary) is being aggressively promoted and is gaining momentum. While launching the Doordarshan 24 x 7 Kisan Channel on the occasion of completion of one year of the NDA Government, the Prime Minister exhorted all farmers to plant at least one-third of their farmland with trees.

Now, if only the state governments, especially those with low forest and tree cover, were to mandate that farmers must plant if not one-third at least 10 per cent of their farmland with trees, as has been done in several countries, it would lead to a considerable increase of tree cover outside forests.

To illustrate, in the case of Punjab, the enhancement of tree cover outside forest would go up from the present 3 per cent to about 13, and the total tree coverage, including the forest cover, would rise to a respectable 15-16 per cent. The next step would then be for the state governments to aggressively make out a case for tree coverage outside forests to be counted either fully at par with forest cover, or else partially based on a scientifically-determined ratio, reflecting a paler shade of green, but green nevertheless.

Legacy of dense forests

In conclusion, it emerges that through the instrument of forest transfers, states with the legacy of very dense and moderately dense forests will benefit the most. And that is, as it should be. But, the new fiscal federalism can spur the greening of Indian landscapes well beyond the forested states. Trees outside forests, in agroforestry systems, can transform landscapes and deliver multiple benefits for humans and ecosystems, contributing substantially to both environmental and human resilience.

For this to happen, states with low forest cover will need to boldly champion the case for inclusion of “trees outside forests” in the determination of inter se financial transfers before the next Finance Commission. It remains to be seen whether the FC will be able to see the wood for the trees.

Seeing the wood for the trees

- The Green India Mission, under the National Climate Action Plan, aims to increase tree cover from 23 per cent to 33 per cent.
- It is also recognised that additional tree coverage implies a combined effort of restoring degraded natural forests as well as increasing tree cover outside forests, both on public and private lands.

- The fiscal arithmetic engineered by the 14th FC is quite persuasive. For states such as Punjab and Haryana, UP and Bihar, with low forest cover, the ideal situation would be to bring more area under forest cover. The ground reality is that in these intensively cultivated states, there is not very much land left to bring under reserved and protected forests.
- There is immense potential for increasing tree cover outside forests through agroforestry, social forestry, silvi-pastures, tree plantation in urban and peri-urban areas or areas that are immediately adjoining urban areas.

The writer is former Secretary to Government of India, Ministry of Rural Development; former Secretary to the National Advisory Council and Member, Board of Trustees of the World Agroforestry Centre.

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