

No. F 9(1) FCD/2010
Ministry of Finance
Department of Expenditure
Finance Commission Division

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New Delhi the 7th September, 2010.

To
The Chief Secretary,
Government of
(All State Governments)

Subject: Implementation of recommendation of Thirteenth Finance Commission-
Issue of Guidelines for utilisation of grant-in-aid for **Forests**.

Sir,

The recommendations of Thirteenth Finance Commission for the award period 2010-15 include, inter-alia, release of grant-in-aid to the State Governments for **Forests**. State Governments are advised to utilise the grant in conformity with the recommendations of the Commission contained in paras 12.24 to 12.31 and 12.45 to 12.49 of the report of FC-XIII (Vol. I).

I am enclosing herewith the guidelines alongwith the format of the Utilisation Certificate (U/C) for release and utilization of grant-in-aid for Forests as recommended by the Thirteenth Finance Commission for information and necessary action. These guidelines and format of U/C are also accessible on the website <http://finmin.nic.in> under heading Thirteenth Finance Commission.

Yours faithfully,

Encl.: As above

(Alok Chandra)
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Copy with a copy of the guidelines to:-
Principal Secretary (Finance), Government of
(All State Governments)

No. F 9(1) FCD/2010
Ministry of Finance
Department of Expenditure
Finance Commission Division

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New Delhi the 7th September, 2010.

To
The Secretary,
Environment and Forests,
Paryavaran Bhawan,
CGO Complex, Lodhi Road,
New Delhi – 110003.

Subject: Implementation of recommendation of Thirteenth Finance Commission-
Issue of Guidelines for utilisation of grant-in-aid for **Forests**.

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The recommendations of Thirteenth Finance Commission for the award period 2010-15 include, inter-alia, release of grant-in-aid to the State Governments for **Forests**. State Governments are advised to utilise the grant in conformity with the recommendations of the Commission contained in paras 12.24 to 12.31 and 12.45 to 12.49 of the report of FC-XIII (Vol. I).

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Secretary (Environment & Forest), Government of
(All State Governments)

F. 9(1) FCD/2010
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 GoI. 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.

- iv) All subsequent instalments i.e in last three years 2012-13, 2013-14 and 2014-15 will be released on the basis of approved working plans as under:
 - a) The grants shall be linked to progress on approval of working plans. The entire amount will be released after approval of more than 80 % of the working plans of the state. Till this is achieved, releases shall be in the ratio of number of working plans approved to 80% of the number of working plans for the state.
 - b) Grants to the extent of 25% shall be over and above the non-plan revenue expenditure (NPRE) projected in Annex 12.3 and the same shall be monitored as explained therein.
 - v) 75% of the total release can be for used development purposes. The remaining 25% of the grant will be used for preservation of forest wealth and is meant to be additionality to the states' budget for development of forestry and wildlife in the last three years.
 - vi) Grant released in a particular year would be utilised in that year.
 - vii) State government will submit Utilisation Certificate every year by first week of June indicating for preceding year grant received from Government of India, budget provision, items of expenditure on plan and non-plan side, unutilised amount etc. Utilisation Certificate should be countersigned by the State Finance Secretary.
- 5. The Ministry of Environment and Forests (MoEF) shall assign to the Forest Survey of India the task of developing a uniform inventory design for information on growing stock and related parameters like bio-diversity and Non Timber Forest Produce (NTFP) as well. This would help bring clarity to the role of the country's forest wealth in climate change mitigation and also help to base fiscal transfers on more robust parameters in future.
- 6. Large forest areas in many of the north-eastern states are privately/community owned. The respective State Governments should play the role of facilitator in the management of these forests through the working plans.
- 7. Grants would be released by Ministry of Finance (Department of Expenditure) for which budget provision will be made in the Demand for Grant number 35.

Monitoring agency at State levels

8. Every State shall constitute a High Level Monitoring Committee (HLMC) to ensure proper utilisation of grant for Forests. This HLMC shall be headed by the Chief Secretary to the State Government and will include Finance Secretary and Secretaries of Departments concerned as members. HLC shall be responsible for the monitoring both physical and financial targets, ensuring adherence to the specific conditionalities in respect of the grant, approving of working plan etc.

9. The HLMC shall meet on a quarterly basis during the award period to review the utilisation of grants and to issue directions for mid-course correction, if considered necessary. Minutes of HLMC meetings shall be provided to the Department of Expenditure (Finance Commission Division), Ministry of Finance and Ministry of Environment & Forest, Government of India.

Monitoring agency at the Union Government level

10. A Review Committee will be constituted in the Government of India, headed by Secretary, Environment & Forests to review utilisation of grants. The Committee will include representatives from the Ministry of Finance (Department of Expenditure), etc. The Committee shall meet at least twice in a year.

Audit by the Controller and Auditor General:

11. The Comptroller and Auditor General of India would be expected to audit the release and use of the grants-in-aid within the time and for the purposes mentioned by the FC-XIII. GOI may take appropriate decision about withholding grants to a State, if the CAG reports that the State allowed the grants to be used for purposes other than the ones for which these were provided.

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Dated 07-09-2010
