

## Did forest-based centre-state transfers work?

04 November 2019



As the 15th Finance Commission (FC) finalizes its recommendations for how the centre's tax revenues are shared with states, new research suggests that the sharing formula should retain forest cover as a criterion. Jonah Busch and others in a paper published by the Center for Global Development analyse state budgets to examine whether ecological fiscal transfers (EFTs) has impacted state forestry expenditures. EFTs are meant to reward states that protected their forests. Within the total centre-state disbursement, 7.5% was set aside to be divided among states based on the area of forests within states. Consequently, states that preserved forests stood to gain in terms of greater disbursement from the centre. To measure the effect of this, the authors compared state expenditure on forests between 2012-13 and 2014-15, before the reform was implemented, with spending in the three years (2015-16 to 2017-18) after the reform.

Based on available state budget data of 25 Indian states which accounted for 90% of India's forest cover (as of 2013), they find that forestry budgets increased by 19% in the three years EFTs were introduced. However, the authors do not attribute the increase in forestry budgets to EFTs because forest spending as a share in total state spending actually

decreased by 16% post EFT. In addition, the states which were rewarded for greater forest cover did not actually increase their forestry budgets.

According to the authors, EFTs did not increase forest budgets either because states did not expect them to be a criterion in future tax devolutions or the funding was not significant enough. They suggest, for EFTs to work as a mechanism to restore forests and mitigate climate change, it needs to be retained in the next devolution formula with the base year for forest cover measurement updated to 2019 (from 2013 currently). This will send a message to the states that steps to protect forests will be rewarded.

Source: <https://www.livemint.com/politics/policy/did-forest-based-centre-state-transfers-work-11572861972064.html>