

Reforming the Management of Public Expenditures on Forests: Some Thoughts

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Abstract

This article reviews the available data on forest expenditures of all public entities in India, identifies and articulates the weaknesses in the management of these expenditures, and argues that, with these entities not spending even their current allocations for the forestry sector, inadequacy of financial resources cannot be regarded as much of a reason for the current dismal state of India's forest sector as it is made out to be. The article asserts that a good part of the solution to India's forest problems lies in reforming the management of its public expenditures on forests, with the focus on strengthening the expenditure-outcome link. This will require: recognition by those responsible for managing the forestry sector's finances that expenditures do not necessarily produce the intended outcomes; definition of intended outcomes in measurable and monitorable terms; and delivery of the intended outcomes. These are major challenges, with the aim of delivering the intended outcomes being the most difficult. The article presents some thoughts on how this challenge can be met.

Introduction

The Supreme Court of India, in its order of October 30, 2002, issued a directive which requires that a payment, equal to the net present value (NPV) of forests diverted for non-forestry purposes, be made in respect of all projects approved under the Forest Conservation Act of 1980, with the NPV ranging between Rs. 580,000-920,000 per hectare of forest land depending upon the density of forest.¹ This new levy became effective beginning October 30, 2002, with the concerned State/Union Territory Governments asked to initially collect the proceeds and then transfer them to the Compensatory Afforestation Fund Management and Planning Authority (CAMPA), as and when created.²

The imposition of the NPV levy was contested by many organizations before the Supreme Court. In response, the Supreme Court passed an order on September 26, 2005 in which it, while upholding the validity of the levy of NPV in principle, directed the constitution of a Committee of Experts with the following terms of reference: to identify

and define the parameters (scientific, bio-metric and social) on the basis of which the value of each category of forest land should be estimated; to formulate a practical methodology applicable to different bio-geographical zones of India for estimation of the values (in monetary terms) of each of the above categories of forest lands; to illustratively apply this methodology to obtain actual numerical values for different forest types for each bio-geographical zone in the country; to determine on the basis of established principles of public finance as to who should pay the costs of restoration and/or compensation with respect to each category of forest land; and to suggest which projects deserve to be exempted from the payment of NPV (Supreme Court of India, 2005:73).

The Committee of Experts has been constituted.³ One hopes that the Committee's work will help the Supreme Court in putting in place a sensible regime for the determination of the NPV to be charged on forest lands diverted for non-forestry purposes. But what is disturbing is that no effort is being made to understand what currently happens to the allocations for the forestry sector: Are these allocations converted into the intended outcomes? If not, why? This paper attempts to answer these extremely important questions.

The plan of the paper is as follows. Section 2 presents the available data on allocations for the forestry sector and on outlays on this sector for recent years. Section 3 articulates why the forestry sector is not spending its allocations. Section 4 investigates whether the outlays on forests have achieved the intended outcomes. Finally, Section 5 presents some thoughts on how the management of public expenditures on forests may be strengthened.

Allocations and outlays

The Planning Commission (2005), in its Mid-Term Appraisal of the Tenth Five Year Plan, has revealed that as against the Government of India's (GOI's) Ninth Plan allocation (at 2001-02 prices) of Rs. 1,089.82 crore for forestry and wildlife,⁴ the outlay amounted to Rs. 924.29 crore (84.8%). The GOI's Tenth Plan allocation (at 2001-02 prices) for forestry and wildlife is Rs. 1,896.37 crore.⁵ Against this, the outlay on forestry and wildlife during the first two years (2002-03 and 2003-04) amounted to Rs. 415.55 crore, and the revised estimate for 2004-05 and the budget estimate for 2005-06 put the outlays at Rs. 238.96 crore and Rs. 218.90 crore, respectively (Planning Commission, 2005:430). Thus, only 46.06% of the GOI's allocation for forestry and wildlife were utilized during 80% of the duration of the Tenth Plan, and that too assuming that the allocations for 2004-05 and 2005-06 were fully utilized.

As regards the State and Union Territory Governments, the picture is no better. These Governments' Ninth Plan allocation for forestry and wildlife amounted to Rs. 8,580.79 crore, against which their outlay added up to Rs. 7,252.20 (84.5%). Their Tenth Plan allocation for forestry and wildlife is Rs. 11,444.34 crore. Against this, their outlay on forestry and wildlife during the first year (2002-03) amounted to Rs. 1,099.11 crore, and the revised estimate for 2003-04 and the budget estimate for 2004-05 put the outlays at Rs. 1,312.52 crore and Rs. 1,399.56 crore, respectively (Planning Commission, 2005:443). Thus, only 33.3% of the State and Union Territory Governments' allocation for forestry and wildlife were utilized during 60% of the duration of the Tenth Plan, and that too assuming that the allocations for 2003-04 and 2004-05 were fully utilized.

As many as 17 States and Union Territories have spent less than 50% of their Tenth Plan allocations for forestry and wildlife, with Orissa spending a mere 3.46%, Maharashtra 7.16%, Rajasthan 8.90%, Uttar Pradesh 13.70%, West Bengal 20.74% and Tamil Nadu 21.57%.

A careful look at the available data reveals that the Tenth Plan outlay on forestry and wildlife during the first three years (2002/03-2004/05) as per cent of the total Tenth Plan allocation for forestry and wildlife is substantially lower than the percentage of total Tenth Plan outlay during these three years to the total Tenth Plan allocation. This holds true for both the GOI and the State and Union Territory Governments: whereas the numbers for the GOI are 34.5% versus 48.5%, those for the State and Union Territory Governments are 33.3% versus 49.3% (see Planning Commission, 2005:38, 430, 439, 443).

The Plan allocations for forestry and wildlife account for a relatively small proportion of the total public sector allocations for this sector. The other components of the public sector allocations for this sector are: non-Plan allocations in the budgets of the GOI and State and Union Territory Governments, and allocations funded by the collections, from users of forest lands for non-forestry purposes, on account of compensatory afforestation, catchment area treatment, wildlife conservation, biodiversity conservation, and fisheries management.⁶

The GOI allocated Rs. 31.09 crore for the forestry and wildlife sector on the non-Plan account for 2004-05, against which the outlay (as reflected in the revised estimates for that year) amounted to Rs. 36.50 crore (Government of India, 2005a:65). Similarly, according to the Reserve Bank of India's latest study on state finances (Reserve Bank of India, 2004:A90, A167), the State Governments allocated Rs. 2,548.59 crore for the forestry and wildlife sector on the non-Plan account for 2003-04, against which the outlay (as reflected in the revised estimates for that year) amounted to Rs. 2,622.11 crore.

What needs to be noted here is that the distinction between Plan allocations and outlays and non-Plan allocations and outlays does not make any sense. Allocations and outlays on schemes included in a Plan are labeled as Plan allocations and outlays, whereas continued allocations and outlays on these schemes after completion of that Plan are labeled as non-Plan allocations and outlays. A popular conception is that Plan allocations and outlays are developmental (and therefore good) while non-Plan allocations and outlays are wasteful (and therefore bad). In practice, this is not necessarily the case. Take, for example, non-wage expenditure on the operation and maintenance of a road constructed during a Plan which is now over. This is a non-Plan expenditure, but certainly not a bad expenditure. Similarly, while the salary paid to a teacher in a primary school set up during the current Five Year Plan will be treated as a Plan expenditure, salary to a teacher in a primary school set up during the previous Five Year Plan will be labeled as a non-Plan expenditure. One can give many such examples. 'The Plan/non-Plan distinction,' as Gupta (2005a:51) has put it, 'doesn't sound rational, distorts allocation of resources, and therefore must be abolished.'

A meaningful way of assessing the Government's commitment to developing the forestry and wildlife sector will be to look at the total allocations and outlays on this sector, with no distinction made even between allocations and outlays on the revenue account and those on the capital account. The GOI allocated Rs. 492.17 crore for the forestry and wildlife sector for 2004-05, against which the outlay (as reflected in the

revised estimates for that year) amounted to Rs. 482.93 crore (Government of India, 2005a:65). These numbers need to be compared with those on the GOI's total allocation and outlay for that year: Rs. 477,829 crore and Rs. 505,791 crore (Government of India, 2005b:1). Clearly, while the GOI's total outlay for 2004-05 exceeded its total allocation for that year, the opposite happened when it came to its outlay on forestry and wildlife. As a consequence, the GOI's outlay on forestry and wildlife during 2004-05 amounted to a mere 0.095% of its total outlay during that year against its allocation of 0.103% for this sector.

As regards the State Governments, they allocated Rs. 4,634.03 crore for the forestry and wildlife sector for 2003-04,⁷ against which the outlay (as reflected in the revised estimates for that year) amounted to Rs. 4,476.15 crore (Reserve Bank of India, 2004:A90, A167). These numbers need to be compared with those on the State Governments' total allocation and outlay for 2003-04: Rs. 488,319.01 crore and Rs. 554,055.94 crore (Reserve Bank of India, 2004:A90, A167). Clearly, while the State Governments' total outlay for 2003-04 exceeded their total allocation for that year, the opposite happened when it came to their outlay on forestry and wildlife. As a consequence, the State Governments' outlay on forestry and wildlife during 2003-04 amounted to just 0.808% of its total outlay during that year against its allocation of 0.949% for this sector.

A careful look at the individual State Government-wise allocation and outlay on the forestry and wildlife sector for 2003-04 reveals that as many as seven State Governments,⁸ responsible for managing a forest area of 137,095 sq. kms., spent less than 90% of their 2003-04 allocations for forestry and wildlife, with the total outlay of each of these State Governments for that year exceeding the total allocation. Take, for example, the case of the Government of Orissa, responsible for managing a forest area of as much as 48,838 sq. kms.: it spent only 63.8% of its 2003-04 allocation for forestry and wildlife, whereas its total outlay amounted to as much as 115.9% of its total allocation for that year.

The State Governments had pleaded before the Twelfth Finance Commission that separate grants should be provided to them for the maintenance of forests. The Commission, recognizing that forests are a national treasure and the country as a whole has a responsibility in preserving it, had recommended a grant of Rs. 1,000 crore spread over the period 2005-10 and for distribution amongst the States based on their forest area, with this money to be treated as 'an additionality over and above what the states have been spending through their forest departments' (Government of India, 2004:184). Have the State Governments' allocation and outlay on the forest sector gone up to the extent of this grant? The currently available data do not allow us to address this issue, but this is an issue that will need to be looked into.

We now move on to examine the issue of allocations and outlays funded by the collections, from users of forest lands for non-forestry purposes, on account of compensatory afforestation, catchment area treatment, wildlife conservation, bio-diversity conservation, and fisheries management. Detailed, year-wise and head-wise, data on these collections are not available. But what we do know is that the amounts involved are fairly large. The Supreme Court's Central Empowered Committee⁹ has, in its September 5, 2002 report, referred to a statement, placed before the Supreme Court by the GOI's Ministry of Environment and Forests, showing the position as on March 20,

2000 of the cases approved for diverting forest lands, stipulation for compensatory afforestation under the Forest Conservation Act, compensatory afforestation done, and funds to be utilized and actually utilized. The statement reveals that 'as against Rs. 859.29 crores which was to be recovered from the user agencies Rs. 793.86 crores has been recovered so far and Rs. 496.22 crore has been actually spent on compensatory afforestation. Thus, less than 60 per cent of the funds which were to be paid by the user agencies have been actually spent on the compensatory afforestation. Further, as against the stipulation of compensatory afforestation to be done over 6,73,527 hectares, so far it has been done over 4,26,965 hectares, which is about 63.4% of the target' (Supreme Court of India, Central Empowered Committee, 2002:7-8).¹⁰

In the states of Chhattisgarh, Madhya Pradesh, Uttaranchal and Uttar Pradesh, the money received on account of compensatory afforestation is directly deposited by the user agencies with the concerned Forest Departments as 'Forest Deposit' and therefore does not form part of the Consolidated Fund (Government of India, Central Empowered Committee, 2002:8). We do not know the share of these four states in the aforesaid recovery of Rs.793.86 crore and in the aforesaid outlay of Rs. 496.22 crore on compensatory afforestation. We also do not know the status of recovery on account of compensatory afforestation and outlay on compensatory afforestation after March 20, 2000. Further, we also do not know how much money has been collected on account of catchment area treatment, wildlife conservation, bio-diversity conservation, and fisheries management, how much of these collections form part of the Consolidated Fund, and how much of the money collected under these heads has been spent. All these aspects need to be looked into.

The bottom line is that the GOI and several State Governments are not spending their allocations for the forestry sector. Why? The next section attempts to address this extremely important issue.

Why are Governments not spending their allocations for the forestry sector?

According to the Supreme Court's Central Empowered Committee, one reason for this is the delay that takes place in the release of funds. This is what the Committee has reported: 'In the States of Chhattisgarh, Madhya Pradesh, Uttaranchal and Uttar Pradesh, the money received on account of compensatory afforestation is directly deposited by the user agency with the Forest Department as 'Forest Deposit'. Since this does not form part of the consolidated fund, these are readily available to the concerned Divisional Forest Officer for undertaking afforestation works as and when required. The availability of funds for the compensatory afforestation is not a problem for these states. However, in most of the other states, the funds received from the user agencies for compensatory afforestation are deposited as revenue receipts with the State Government which are made available to the Forest Department only through budgetary provision. All the states, except Karnataka, are facing problems in timely release of funds for compensatory afforestation' (Supreme Court of India, Central Empowered Committee, 2002:8-9).

India must have a mechanism that ensures timely release of the funds required for compensatory afforestation as for other forest development activities, but, is the practice of asking the user agency to directly deposit the compensatory afforestation money with the concerned Forest Department as 'Forest Deposit', the best alternative for achieving

the intended objective? One can argue that a much better alternative will be to have a public financial management and accountability (PFMA) system for the forestry sector (and, for that matter, for all sectors) that ensures flow of the right amount of money at the right time to the right level, with neither delay nor ‘parking’ of funds.

Does India have such a PFMA system for the forestry sector? A complete answer to this important question is not available, but the recent PFMA studies that the World Bank has done in collaboration with the governments in Andhra Pradesh (Government of Andhra Pradesh, 2003a and 2003b), Karnataka (World Bank, 2004b), Orissa (World Bank, 2004c) and Uttar Pradesh (World Bank, 2004d) do throw some light on it.¹¹ These studies raise many issues, including those relating to: weaknesses in budget preparation, execution and monitoring; and weaknesses in internal controls and internal audit.

Weaknesses in budget preparation, execution and monitoring

A good budgeting system is one with intensive pre-budget scrutiny of both revenue and expenditure estimates – a system that makes it difficult to include an expenditure item in the budget, but also one with adequate funding so that once an expenditure item does get included in the budget, it is assured of implementation. Unfortunately, budget preparation in many cases is not realistic, with overoptimistic revenue forecasts allowing a ‘wish-list’ of expenditure initiatives included in the budget. And when the ‘budgeted’ revenue does not come, expenditure cuts become inevitable, with further stress caused by the unfunded expenditure initiatives announced outside of the budget cycle. This results in enormous uncertainty, jostling and delays, and relatively small spending until the end of the financial year when there is an enormous rush to spend money: in Karnataka, a state with a relatively better PFMA system, in 2000-01, 29% of all expenditures and 37% of capital expenditures were incurred in the last month of the financial year; similarly in 2001-02, 26% of all expenditures and 42% of capital expenditures were incurred in the last month (World Bank, 2004b:20).

Given such a state of affairs, several Government ministries/departments, including the GOI’s Ministry of Environment and Forests (MOEF) and State Forest Departments, do not get to spend their allocations. Take, for example, the MOEF’s allocation of Rs. 231 crore for its Forest Protection and Regeneration Programme for 2002-03, 2003-04 and 2004-05, against which it could spend a mere Rs. 96.73 crore (41.9%) until the end of October 2004. Why was the performance so dismal? ‘The main reason for the shortfall’, as the MOEF has reported in its Performance Budget for 2005-06, ‘has been the change in the funding pattern of the scheme from 100% Centrally Sponsored to 75%:25% cost sharing in Financial Year 2003-04. On requests and representations received from the states, the funding pattern has been modified during 2004-05. At present, it is 90%:10% for the North-Eastern States and special category states and it is 75%:25% for the remaining states & UTs. Most of the States are finding it difficult to provide the matching share due to resource constraints and hence are not able to make use of central assistance. No provision has been made for the year 2005-06’ (Government of India, Ministry of Environment and Forests, 2005b:4). Why did the MOEF not do its homework of properly assessing the States’ capacity and, what is more, their willingness to provide the matching resources before preparing the budgets for its Forest Protection and Regeneration Programme? And why did the MOEF not budget any money for this programme for 2005-06?

Take another example. The MOEF was allocated Rs. 284.85 crore for its National Afforestation Programme for 2005-06, but its outlay, as reflected in the revised estimates for this programme for that year, amounted to only Rs. 249.78 crore. A shortfall of 12.31%, and that too for a programme which is the main vehicle for achieving the target of a forest cover of 25% by 2007, which, incidentally, is the MOEF's main thrust area (Government of India 2006a:68). Why this shortfall?

The MOEF does not address this question, but a recent story in the press (*Sunday Times of India*, 2006:11) lists the reasons for the GOI's selected ministries not spending their allocations: delay in getting approval for the village grain bank scheme; delay in identifying 25,000 remote villages for electrification; utilization of allocations not fast enough due to the procedural wrangles; and delay in execution of projects. The story does not cover the MOEF, but the reasons that it lists may apply to this Ministry as well.

Weaknesses in internal controls and internal audit

The Orissa study highlights the Comptroller and Auditor General of India's (CAG's) performance review of the Swarnjayanti Gram Swarozgar Yojana (SGSY), a centrally-sponsored scheme, in Orissa since its launch on April 1, 1999 (Comptroller and Auditor General of India, 2003a:129-141) to illustrate these weaknesses. The performance review has revealed that as much as 62.17% of the expenditure test checked during audit was irregular, with 19.87% deposited into Personal Ledger Accounts¹²/Personal Deposit Accounts/Banks, 13.03% lying unutilized, 12.49% disbursed as advances and treated as final expenditure, 6.15% misused/diverted to unrelated activities, 2.13% incurred on works not permissible, and the remaining 8.51% accounted for by other irregularities (Comptroller and Auditor General of India, 2003:130). A careful scrutiny suggests that even 37.83% of the expenditure test checked during audit which, according to the CAG, was incurred on the SGSY, has failed to achieve the intended outcomes (Gupta, 2005b:5). This, according to the World Bank (2004a:13), is 'perhaps the clearest illustration of lack of assurance that funds are being applied to their intended purpose.'

This suggests that what one should really be concerned with is efficient conversion of allocations and outlays into intended outcomes. Given the way public expenditures are currently managed in India, it is possible that while a government ministry/department may spend 100%, or even more, of its allocation, it may fail to achieve the intended outcomes: the money may simply be 'parked' in a personal ledger account, or recorded as spent on the last day of the financial year, or may be misused/diverted to unrelated activities, or may be accounted for through a combination of such irregularities. This raises the extremely important issue of what currently happens to the outlays on the forestry sector: Do these outlays achieve the intended outcomes? If not, why? The next section attempts to address these issues.

Have the outlays on forests achieved the intended outcomes?

On February 28, 2005, Finance Minister P. Chidambaram accepted a major challenge: to reform the management of the GOI's expenditures, with the focus on efficient conversion of the financial outlays into intended outcomes. Almost six months later, on August 25, 2005, he presented to Parliament the Outcome Budget: 2005-06, which includes the outcomes identified and targets set by the ministries and departments for themselves.

The outcome of the MOEF's, for example, National Afforestation Programme (NAP), whose objective is 'to increase forest cover' (Government of India, 2005c:220) and which had an allocation of Rs. 284.85 crore for 2005-06,¹³ has been defined as '5 years after sanction, new plantations would, for each bio-geographic region, show the prescribed survival rates; 6 to 12 years after sanction, depending on the species, the new plantations would be revealed as either new area under Forest/Tree cover or enrichment of forest cover in Satellite Imagery' (Government of India, 2005c:220), with the quantifiable deliverables being: operationalising 100 new FDA (Forest Development Agency) projects and 3,500 new Joint Forest Management Committees (JFMCs); and total project area approved, including for natural regeneration, artificial regeneration, and herbs and shrubs: 100,000 hectares (Government of India, 2005c:220).

We do not know how much of these intended outcomes have been achieved. But given that the NAP was launched during 2002-03, the question that one may ask is: Has the MOEF got the value for the money that it has spent on the NAP since it was launched and, if not, why?

The MOEF's Performance Budgets for 2002-03, 2003-04, 2004-05 and 2005-06 do not answer this extremely important question. Take, for example, the Performance Budget for 2005-06 which in Chapter III, entitled 'Appraisal of Performance of Major Programmes', simply lists as many as twelve short-term and seven long-term objectives of the NAP¹⁴ and fails to appraise it.

The MOEF's response to the April 18, 2005 Lok Sabha question (unstarred question number 3622), that sought to reveal, among other things, (a) the extent of increase in forest cover as a result of the implementation of NAP; (b) whether there is any provision of any committee/institution to monitor and control the expenditure of the amount allocated under the NAP; (c) if so, the details thereof; and (d) if not, the manner in which the Government would ensure that the amount allocated under the NAP is spent under the appropriate head, also does not address this issue in a manner which may allow one to draw any meaningful inferences. Indeed, the MOEF's response is an excellent example of sweeping the issues under the carpet. This is most unfortunate.

Here is the relevant part of the MOEF's response: 'No specific study has been undertaken to assess the increase in forest cover due to implementation of NAP. However, the MOEF has assigned the responsibility to the Forest Survey of India to monitor area coverage of plantation/afforestation under NAP by adopting a scientific methodology. Monitoring and evaluation of the projects approved under the NAP is an essential part of the Scheme. The State-level Coordination Committee and the National-level Steering Committee monitor the implementation of the projects under the Scheme at the State and national level, respectively. Besides, the MOEF also commissions independent evaluation of the NAP projects through reputed experts and organizations' (Government of India, Ministry of Environment and Forests, 2005c:1).

Given that the MOEF has assigned the responsibility to the Forest Survey of India to monitor area coverage of plantation/afforestation under NAP by adopting a scientific methodology, why did the MOEF not check with the Forest Survey of India and report on the increase in forest cover due to the implementation of NAP? Further, given that monitoring and evaluation of the projects approved under the NAP is an essential part of the Scheme, and given that the State-level Coordination Committee and the National-level Steering Committee monitor the implementation of the projects under the Scheme at

the State and national level, respectively, why did the MOEF not tell as to what exactly these Committees monitored and what the outcome of their monitoring was? Finally, given that the MOEF also commissions independent evaluations of the NAP projects through reputed experts and organizations, where are the reports of these ‘reputed experts and organizations’ and what have they reported? If they have reported that the NAP has been a success, let the MOEF say so.

The problem with the NAP is that it has lacked focus so far – it has aimed to achieve as many as 19 objectives, ranging from ‘promotion of fuel saving devices to encourage efficient use of fuel wood and to reduce the drudgery of rural women involved in collection of wood, as also to improve the environment’ and ‘employment generation for the disadvantaged sections of society, particularly women, scheduled castes/scheduled tribes and landless rural labourers, inhabiting the forests and adjoining areas’ to ‘protection and conservation of natural resources through active involvement of the people’ (Government of India, Ministry of Environment and Forests, 2005a:7). What is more, the NAP’s authors have not indicated any periodical measurable and monitorable targets to assess the effectiveness of this programme. How can one meaningfully evaluate a programme which aims to achieve as many as 19 diverse objectives, with no indication of any periodical measurable and monitorable targets to assess the progress in the achievement of these objectives?

It may be that the NAP has failed in achieving its objectives, but this does not necessarily mean that those responsible for managing the NAP’s implementation at the micro level have failed. One reason for this, as one can see, is that the NAP has not been designed properly. Another reason may be that while allocating money to a given Forest Development Agency (FDA), adequate consideration was not given to the ground realities – maybe the FDA did not have the requisite capacity to implement the NAP. Further, it may be that a given FDA, or many FDAs, did not get the right amount of money at the right time.

But all this raises an extremely important issue: what has happened to Rs. 592.24 crore¹⁵ that were released under the NAP during the period April 1, 2002-March 31, 2005? This money was released to FDAs all over the country, with Rs. 59.51 crore released to FDAs in Uttar Pradesh, Rs. 52.41 crore to those in Karnataka, Rs. 41.91 crore to those in Madhya Pradesh, Rs. 36.52 crore to those in Tamil Nadu, and Rs. 33.59 crore to those in Chhattisgarh, with the balance released to FDAs in other States. But what did the FDAs do with this money? What did they spend it on? Was it spent under the appropriate heads? These are important questions, but the answers to them are not available.

The MOEF intends to commission a comprehensive mid-term evaluation study of the NAP. The terms of reference list as many as ten general objectives of the study, twelve issues for in-depth analysis, and five areas for the recommendations part of the evaluation (Government of India, Ministry of Environment and Forests, 2005d:3-6). Given that the NAP’s objective now is ‘to increase forest cover’ (Government of India, 2005c:220), it will be excellent if the study focuses on what the NAP has achieved in terms of this objective, and how the costs involved compare with some objective efficiency norms. The study may use the case study approach and do some surveys to track the MOEF’s NAP expenditures: How does a given FDA spend its NAP money? Does it receive the right amount of money at the right time? If not, why? How much of

the NAP money is misused/diverted to unrelated activities? What is the structure of incentives governing the behavior of those responsible for managing the NAP money? Does the FDA in question have the capacity to effectively spend the NAP money? Is an effective monitoring and evaluation system in place? If not, why?

Responses to these questions will allow the MOEF to understand the NAP situation at the micro level. The MOEF will then know why an NAP allocation to a given FDA in a State may produce the intended outcome, but an equal NAP allocation to another FDA in the same State may fail to produce the intended outcome.

What is more, armed with the responses to the above questions, the MOEF will also be in a position to develop a strategic action plan, including the requisite incentive-creating, institutional-strengthening and capacity building measures, for efficiently converting the NAP outlays into intended outcomes. The action plan may differ from one FDA to another.

We now need to move on and examine the issue of efficient conversion of the State Governments' outlays on forests into the intended outcomes. Take, for example, the Government of Madhya Pradesh's (GOMP's) outlays on forests – Madhya Pradesh is a pivotal state for India's forestry sector, accounting for more forest area (77,265 sq. km.) than any other state in the country, with the GOMP accounting for about 12% of all State Governments' total expenditure on the forestry and wildlife sector.

Given that evaluation of outcomes of public expenditures has only recently emerged as an important area of public policy work in India, all that one can do at this stage is to carefully review the available anecdotal evidence on this issue and draw some meaningful inferences from it. The Comptroller and Auditor General of India's (CAG's) audit reports (civil) on the GOMP and the World Bank's performance assessment of the Madhya Pradesh forestry development project are two important sources for such anecdotal evidence.

According to the CAG's Audit Report (Civil) for the year 2003-04, of the 13,346 audit paragraphs that remained outstanding since 1991-92 to June 2004, 2,412 audit paragraphs, involving an expenditure of Rs. 533.83 crore, related to the GOMP's Forest Department. These audit paragraphs report serious irregularities detected during inspections of the Forest Department that were conducted by the Accountant General to test check, *inter alia*, the transactions and verify the maintenance of important accounting and other records as per prescribed rules and procedures (Comptroller and Auditor General of India, 2005:130-31).

The CAG's Audit Reports have also revealed many specific irregularities. These include: excess/avoidable expenditure of Rs. 55.27 lakh due to incorrect application/fixation of job rates by Divisional Forest Officer (General), Shivpuri, Field Director, Pench Tiger Reserve, and Conservator of Forests, Seoni in respect of felling of *khatr* trees and construction of boulder check dam (Comptroller and Auditor General of India, 2005:119-21); unfruitful/irregular expenditure on overseas training to ineligible candidates under the Madhya Pradesh Forestry Project (Comptroller and Auditor General of India, 2003b:74-75); infructuous expenditure of Rs. 38.79 lakh on raising and maintenance of plants in nurseries in excess of requirement (Comptroller and Auditor General of India, 2003b:75); loss of Rs. 96.90 lakh due to failure of plantation (Comptroller and Auditor General of India, 2001:97-98); expenditure of Rs. 29.12 lakh on neem plantation that did not yield desired results (Comptroller and Auditor General of

India, 2001:99); and seedlings raised in nurseries that remained unutilized in plantations nor disposed of otherwise, resulting in a loss of Rs. 23.82 lakh (Comptroller and Auditor General of India, 2001:100).

As regards the World Bank's performance assessment of the Madhya Pradesh forestry development project, of the two districts of Madhya Pradesh (Betul and Bilaspur) selected for the survey, the findings from which form the basis of this performance assessment,

in Betul, five out of nine male focus groups commenting on the state of forest cover said that degradation had been reversed, citing the positive work of the Forest Committee. In Bilaspur, all nine focus groups for men made negative comments about the state of forest protection, including allegations that forest guards as well as villagers were involved in illicit felling of trees....The contrasting observations for the two districts were echoed in the comments of the female focus groups....The evidence of significant difference between the two districts is reinforced by the satellite data which shows that while the forest cover has increased slightly in Betul it has shrunk in Bilaspur' (World Bank, 2005:6).

This suggests that all is not well with the management of the GOMP's expenditure on forests. The Government may ask a reputed, independent institution to do some detailed case studies to better understand why it is not getting the value for money from its expenditure on forests and then take the measures required to efficiently convert its outlays on forests into the intended outcomes. The institution may, for example, go beyond the World Bank's performance assessment of the Madhya Pradesh forestry development project and address the following issues: why has Betul done better than Bilaspur on the front of forest cover? Does Betul have any lessons for Bilaspur? How can Betul perform better in increasing forest cover? Why is Bilaspur's performance in increasing forest cover so poor? How much increase in forest cover in Bilaspur can one realistically aim at for the next, say, five years and what will need to be done to achieve this target?

Conclusion: Strengthening the management of public expenditures on forests

The Planning Commission, in its mid-term appraisal of the Tenth Plan, has reported that 'in spite of 1.1 million hectares (ha) being covered under afforestation programmes annually, the total forest cover remains inadequate, which is largely on account of inadequate resources made available' (Planning Commission, 2005:429). And the Twelfth Finance Commission, recognizing that forests are a national treasure and the country as a whole has a responsibility in preserving it, has recommended a grant of Rs. 1,000 crore spread over the period 2005-10 and for distribution amongst the States based on their forest area, with this money to be treated as 'an additionality over and above what the states have been spending through their forest departments' (Government of India, 2004:184). One may totally agree that forests are a national treasure and that India needs to increase the total forest cover, but is inadequacy of the resources as much a reason for the current state of India's forest sector as both the Planning Commission and the Twelfth Finance Commission make it out to be? Our discussion in Section 2 reveals

that the GOI and several State Governments are not spending even their current allocations for the forestry sector.

One can assert that a good part of the solution to India's forest sector's problems lies in reforming the management of public expenditures on forests, with the focus on strengthening the expenditure-outcome link. This requires: recognition by those responsible for managing the forestry sector's finances that expenditures do not necessarily produce the intended outcomes and that it is the outcomes that the people are concerned with; definition of the intended outcomes in measurable and monitorable terms; and delivery of the intended outcomes with a strong sense of ownership to be shared down the line up to the cutting edge levels through effective communication. These are major challenges, with the challenge of delivering the intended outcomes being the most difficult. But the challenge can be met. This will require several things.

Firstly, with increasing the forest and tree cover to 33 per cent by 2012 as against the baseline cover of 23.03 per cent in 2001 being the intended outcome, one will need to examine the available evidence on the actual outcomes of the outlays on the forestry sector. Given that the total public outlay on the forestry and wildlife sector currently adds up to well over Rs. 5,000 crore a year, one needs to know the increase in forest and tree cover that may be attributed to this outlay. In case credible data on this are not available, one will need to take cost-effective measures to fill this gap. Secondly, one will need to raise a fire alarm for any failure in achieving the commensurate increase in forest and tree cover.

Thirdly, with the fire alarm raised, one will need to investigate what caused the failure. This will involve identifying the various possible breaks in the chain between a given public spending on forests and its transformation into the targeted increase in forest and tree cover, and then pinpointing the break(s) responsible for a given failure. Gupta (2005a:43-44) lists the various possible breaks: the composition of spending may not be appropriate; even when the composition of spending is appropriate, the implementing agency may not receive the money at the right time; even when the implementing agency receives the money at the right time, the implementing agency may not have the capability to implement the project that is funded, or may misuse/divert the money to unrelated activities; finally, even when the implementing agency has the capability to implement the project that is funded and does not misuse/divert the money to unrelated activities, its incentives to implement the project may be weak.

Fourthly, the investigation of what caused a given failure, will allow one to understand the forestry situation at the micro level. This, in turn, will allow one to develop a strategic action plan, including the requisite incentive-creating, institutional-strengthening and capacity building measures, for correcting the failure and thereby for efficiently converting the forestry outlays into the intended outcomes. It must be added that while preparing a given action plan, one will need to budget the allocations required for delivering the intended outcomes at the micro level. As a consequence of all this, the action plan may differ from, say, one State to another and within a given State, from, say, one district to another.

Fifthly, one will need to agitate for the implementation of a given action plan by the concerned FDA/Forest Department. Arrangements will also have to be made for monitoring the action plan's implementation. Finally, one will need to subject the action plan's implementation to an independent, rigorous evaluation.

The Planning Commission has recently constituted the Development Evaluation Advisory Committee (DEAC). The DEAC, which includes all members of the Planning Commission and four eminent experts in the field of evaluation research, ‘will, *inter alia*, closely monitor the progress in delivering the intended outcomes’ (Government of India, 2006b:24). Let the DEAC take the lead in organizing the above work in consultation with the MOEF, CAMPA, State Forest Departments and FDAs.

The challenge of delivering the intended forestry outcomes, one may repeat, can be met. But the requisite work must begin right away. India is already late: there isn’t much time left between now and 2012, given the magnitude of the challenge.

Notes

¹ The Supreme Court of India’s directive regarding the payment of a levy equal to the net present value of forest lands diverted for non-forestry purposes, is in acceptance of the Central Empowered Committee’s recommendation to this effect in its report of September 5, 2002. A careful examination reveals that the trigger for this report of the Committee, and thereby for the Supreme Court of India’s directive regarding the payment of a levy equal to the net present value of forest lands diverted for non-forestry purposes, is the issue of substantial shortfall in the utilization of funds available for afforestation (Supreme Court of India, Central Empowered Committee, 2002:8).

² The CAMPA has now been created. The Government of India’s Ministry of Environment and Forests, in exercise of the powers conferred by Section 3(3) of the Environment (Protection) Act of 1986, issued a notification on April 23, 2004, constituting the CAMPA for managing the money received on account of compensatory afforestation, NPV and any other money recoverable in pursuance of the Supreme Court of India’s order in this regard and in compliance of the conditions stipulated by the Government of India while according approval under the Forest (Conservation) Act of 1980 for non-forestry uses of the forest land. For details of this notification, see Government of India, Ministry of Environment and Forests, Forest Conservation Division (2004:1-6).

³ The Committee consists of: Professor Kanchan Chopra, Director, Institute of Economic Growth, Delhi (Chairperson); Professor Gopal K. Kadekodi, Director, Institute for Social and Economic Change, Bangalore (Member); Mr. V. B. Eswaran, Former Secretary, Government of India (Member); and Dr. Purnamita Dasgupta, Associate Professor, Institute of Economic Growth, Delhi (Member-Secretary).

⁴ With separate data on forestry in the required detail not available, we have used the combined data on forestry and wildlife.

⁵ This is the revised allocation. The original Tenth Plan allocation for forestry and wildlife was Rs. 1,600 crore (forestry: Rs. 800 crore; wildlife: Rs. 800 crore). Of the revised allocation of Rs. 1,896.37 crore, Rs. 1,225.75 crore is for forestry and Rs. 670.62 crore for wildlife (Planning Commission, 2005:439). Thus, while the revised allocation for forestry is up by 53.2%, that for wildlife is down by 16.2%. One does not know why the allocation for wild life has been reduced.

⁶ The Forest Departments in State and Union Territory Governments do these collections. Some of these collections are deposited into the Consolidated Fund, while others are not. The National Hydroelectric Power Corporation alone has paid Rs. 176 crore during the last 17 years on account

of compensatory afforestation and catchment area treatment, with payments to the Government of Arunachal Pradesh's Forest Department amounting to Rs. 70 crore, Government of Sikkim's Forest Department Rs. 36.16 crore, Government of Himachal Pradesh's Forest Department Rs. 33.46 crore, Government of Assam's Forest Department Rs. 10.95 crore, Government of West Bengal's Forest Department Rs. 10.70 crore, Government of Uttar Pradesh/Uttaranchal's Forest Departments Rs. 7.65 crore, and Government of Jammu and Kashmir's Forest Department Rs. 7.08 crore.

⁷ At the time of writing this article, 2003-04 was the latest year for which data on the State Governments' allocations and outlays on the forestry and wildlife sector were available.

⁸ These seven State Governments are: Government of Nagaland, Government of Orissa, Government of Punjab, Government of Rajasthan, Government of Tamil Nadu, Government of Uttaranchal, and Government of West Bengal.

⁹ The Central Empowered Committee was constituted by the Supreme Court of India by its order of May 9, 2002 in Writ Petitions (Civil) Numbers 202 of 1995 and 171 of 1996. The powers and functions of the Committee are: (1) Pending interlocutory application in these two writ petitions as well as the reports and affidavits filed by the States in response to the orders made by the Supreme Court shall be examined by the Committee, with its recommendations placed before the Court for orders. (2) Any individual having any grievance against any steps taken by the Government or any other authority in purported compliance with the orders passed by the Supreme Court will be at liberty to move the Committee for seeking suitable relief. The Committee may dispose of such applications in conformity with the orders passed by the Court. Any application which cannot be appropriately disposed of by the Committee may be referred by it to the Court. (3) The Committee shall have the power to (a) call for any documents from any person or the government of the Union or the State or any other official; (b) summon any person and receive evidence from such person on oath either on affidavit or otherwise; and (c) seek assistance / presence of any persons(s) / official(s) required by it in relation to its work. (4) The Committee is empowered to co-opt one or more persons as its members or as special invitees for dealing with specific issues. While dealing with issues pertaining to a particular State, wherever feasible, the Chief Secretary and Principal Chief Conservator of Forests of the State shall be co-opted as special invitees. (5) The Committee shall submit quarterly reports to the Supreme Court. It will be at liberty to seek clarifications/modifications needed by it from the Court.

¹⁰ The Supreme Court of India 'noted the dismal situation' (Supreme Court of India, 2005:7) and *suo moto* treated the statement in question 'as an IA and after giving it IA No. 566, issued notices to the defaulting states which have recorded poor progress in utilization of funds and not submitting the quarterly progress reports to the Ministry of Environment & Forests' (Supreme Court of India, Central Empowered Committee, 2002:4).

¹¹ World Bank (2004a) presents a synthesis of these studies.

¹² Personal Ledger Account (PLA) is a separate treasury account (a deposit account within the Public Account) that is used as a device to avoid the lapsing of moneys. It allows a government department to transfer an unspent amount at the end of a fiscal year to special deposits for later use. 'Strictly speaking, treating PLAs as expenditure of government departments is', as the World Bank (2004d:25) has put it recently, 'unconstitutional because unspent allotments are not

expenditure of the year of allotment. It is also financially unsound, as expenditure records are incorrect (and are not retrospectively corrected), and because payments from (these) deposits are not subject to the same controls that apply to chargeable expenditures. As the expenditure is no longer from the Consolidated Fund, new expenditures are not subject to individual top-level sanction and vouchers are not sent to the AG (Accounts) or to AG (Audit).’

¹³ Of this, the allocation for the North-Eastern States is Rs. 48 crores, with the balance (Rs. 236.85 crore) being the allocation for other States.

¹⁴ The NAP’s short-term objectives are: regeneration and eco-development of degraded forests and adjoining areas on a watershed basis; augmentation of the availability of fuel wood, fodder and grasses from the regenerated areas; securing people’s participation in planning and regeneration efforts to ensure sustainability and equitable distribution of forest products from the regenerated lands, and to promote the partnership concept in the management and administration of forests and common property resources; promote agro-forestry and development of Common Property Resources; promotion of fuel saving devices to encourage efficient use of fuel wood and to reduce the drudgery of rural women involved in collection of wood, as also to improve the environment; conservation and improvement of non-timber forest produce such as bamboo, cane and medicinal plants; encourage production of non-timber products such as wax, honey, fruits and nuts from the regenerated areas; raising coastal shelterbelts to mitigate the adverse impacts of cyclonic winds; develop water resources through plantation and water harvesting programme; development and extension of improved technologies such as clonal propagation and use of root trainers for raising seedlings, mycorrhizal inoculation, etc.; rehabilitation of special problem lands like saline/alkaline soils, ravines, desert areas, coastal areas, mined areas, Himalayas, Aravallis and Western Ghats; and employment generation for the disadvantaged sections of society, particularly women, scheduled castes/scheduled tribes and landless rural labourers, inhabiting the forests and adjoining areas. And the NAP’s long-term objectives are: protection and conservation of natural resources through active involvement of the people; checking land degradation, deforestation and loss of biodiversity; ecological restoration and environmental conservation and eco-development; evolving village level people’s organisation which can manage the natural resources in and around villages in a sustainable manner; fulfilment of the broader objectives of productivity, equity, and sustainability for the general good of the people; improve quality of life and self-sustenance aspect of people living in and around forest areas; and capability endowment and skill enhancement for improving employability of the rural people.

¹⁵ The source for this and other numbers in this paragraph is: Government of India, Ministry of Environment and Forests (2005c).

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