Valuing forests in India: A flawed system to compensate for forests lost to development projects

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SUMMARY

» The Union government has a policy in place to regulate cutting down of forests to set up industries and infrastructure projects. As part of the procedure to take over forest land, project developers are mandated to pay a price equal to the value of the forests, known as the Net Present Value or NPV.

» Although meant to act as a deterrent to divert forests, experts argue¹ that it does little to discourage developers from taking over forest land. Experts also question the logic behind assigning a value to forests.

» Despite a Supreme Court order stating that the value be revised every three years, the NPV remained unchanged for 13 years². In 2022, the government announced an increase, which was only marginal.

» However, several ministries including coal, power and steel ministries oppose attempts to increase this value, even pushing for relaxations around NPV.

» Barely a day before the NPV was revised in 2022, an expert committee formed by the Supreme Court submitted a report³ suggesting a substantial revision. On February 8 this year, the Environment ministry asked for 12 weeks to get back on its recommendations.
BACKGROUND

Since colonial times, successive governments have formulated policies to use forests in India. In 1980, the Forest Conservation Act was enacted to set guidelines for diverting forests for non-forest use. Under the Act, project developers pay a compensation which is deposited in the fund under the Compensatory Afforestation Fund Act (CAMPA). Money from this fund is then used to carry out plantations — to compensate for the forest cover lost to the project.

a. Supreme Court Orders Forests to be Valued

In March 2008, the Supreme Court while hearing the T.N. Godavarman case (which initially dealt with illegal deforestation of Nilgiri forests, and was later expanded to look at forest management across the country), directed developers to pay a set NPV in addition to the amount paid for compensatory afforestation. So, apart from the payment made to carry out afforestation elsewhere for the area of lost forest cover, developers also need to pay an amount equal to the value of the forests lost. In March 2008, the apex court set up an expert committee headed by environmental economist Kanchan Chopra to evaluate forests in India. The court added that the NPV must be revised every three years.

b. Value of Forests Not Revised for 13 Years

The value, however, was not revised till 2022. This was criticised by the SC-appointed Expert committee and at least two more expert groups prior to that.

An Indian Institute of Forest Management (IIFM) study published in 2014, which was commissioned by the Environment ministry in March 2012, suggested a four-fold increase in NPV. In August 2014, a committee led by former cabinet secretary T.S.R. Subramanian, which was formed to review environmental laws, recommended a five-time increase in the NPV. Multiple reviews suggest that the current method of calculating NPV is therefore outdated.
Madhu Verma, one of the lead authors of the IIFM study, stated that the present method of calculating the NPV uses the market price of carbon, which does not accurately represent its social costs. “[In our IIFM study] we picked up values which impact the livelihoods of people and the economy as a whole and did the calculations,” said Verma.

c. Opposition to Increase NPV

While the Environment ministry initially considered implementing the four-fold increase suggested by the IIFM, several ministries and departments, including the NITI Aayog and the ministries of coal, steel and power opposed the move fearing an “abrupt increase in the NPV” and subsequent increase in project costs. After a discussion between the ministries, the Environment ministry decided in January 2021 that it will not implement the “abrupt” four-time increase.

“Several ministries and departments opposed increase in the NPV, fearing an “abrupt” increase in project costs.”
EMERGING ISSUES

The Impact of the Policy on the Ground

» The SC’s expert committee found that NPV has done little over the years to discourage takeover of forest land. Industries along with ministries have managed to weaken the NPV policy and obtain exemptions.

» The marginal 1.5 times increase announced in January 2022 was criticised by experts. Methods used to calculate this increase were outdated and remain so.

» The SC committee in its report emphasises that the non-revision of the NPV for the past 13 years has resulted “in an undervaluation of the natural capital that is being diverted.”

» Majority of the amount collected in the CAMPA Fund, including NPV lies idle. Audit reports by the Comptroller and Auditor General of India and news reports reveal issues related to the utilisation of funds, delays in land transfer for afforestation, non-existent compensatory plantations and forcible takeover of community lands for afforestation.

» Experts also believe that the debate around NPV is more of a distraction. It doesn’t address the more fundamental questions about forest governance and the idea of making the process of forest diversion more transparent and consent-driven.
RECOMMENDATIONS

» Since the current NPV mechanism has proved ineffective in conserving forests, other consent-based approaches must be given priority to conserve forests. Studies show that consent-based approaches — where local communities are involved in conserving forests — have proved more effective in protecting forest cover.

» If the purpose of the NPV is to act as a deterrent, freezing the NPV at a low rate for several years does not serve the purpose. Regular updation is required, taking into account the latest developments in environmental valuation methods.

» Since money collected as NPV is used for afforestation, funds from CAMPA must be effectively utilised to plant and maintain vegetation.
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