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MAGAZINE NOTES

The 16th Finance Commission & Ecological/Disaster Federalism

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POLITY

ECONOMY

ENVIRONMENT

GS2

GS3

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The 16th Finance Commission & Ecological/Disaster Federalism



Down to Earth

Chapter 9 · 1 min read

Context

- Union Government accepted 16th FC recommendations for 2026-2031
- States' vertical devolution share retained at **41%** but horizontal criteria fundamentally altered

Key Reforms

Discontinuation of Revenue Deficit Grants

- For the **first time since the 1st FC**, no revenue deficit grants recommended — forces strict fiscal discipline on states

Expanded Forest Criterion

- Retained **10% weightage** but historically recognised **Open Forests (10-40% canopy)**, granting them **0.30 weightage** (MDF: 0.65, VDF: 1.0)
- Incentivises protection of neglected dry forests, savannahs, and deserts — not just dense tropical canopies

Climate-Responsive Disaster Financing

- Total allocation: **₹2,04,401 crore**
- Formally recommended recognising **Heatwaves and Lightning strikes** (surged 34% recently) as National Disasters
- Incorporated **Forest Fires** into the Disaster Risk Index

Urbanisation Incentive

- Allocated **₹10,000 crore** to incentivise states to merge sub-urban villages into nearby large urban bodies
- Provides **₹2,000 per person**; aimed at shifting workforce from low-productivity agriculture to high-productivity urban sectors

UPSC Angle

- **GS2:** Fiscal federalism, Finance Commission, Centre-State relations
- **GS3:** Disaster management, climate finance

 FACTS CORNER — KNOWLEDGE PEDIA**16TH FINANCE COMMISSION (2026-31):**

Vertical devolution: 41% (retained)

Revenue deficit grants: discontinued (first time since 1st FC)

Forest criterion: 10% weight; Open Forest = 0.30, MDF = 0.65, VDF = 1.0

Disaster allocation: ₹2,04,401 crore

New disaster categories recommended: heatwaves, lightning strikes

Urbanisation incentive: ₹10,000 crore (₹2,000 per person)



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