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Daily Mains Practice Answer 24-07-2026

Q. Assess the role of Finance Commissions in promoting sustainable development through fiscal incentives. How far has the 16th Finance Commission succeeded in mainstreaming environmental governance? (250 words, 15 marks)

Direction: Intro----Role of FC + 16^{th} FC's role in environment + Limitations of 16^{th} FC-----Conclusion.

Introduction:

Describe briefly about the Finance Commission (FC) & the 16th Finance Commission.

Main Body

Role of Finance Commissions in promoting sustainable development

- Rewards conservation efforts, encouraging states to protect forests by compensating ecological opportunity costs.
- Internalises ecological externalities by compensating states with ecological outcomes.
- Strengthens local environmental governance through Panchayats and Urban Local Bodies.
- Rewards conservation efforts through performance-linked grants and tax devolution criteria.
- Supports climate-resilient infrastructure through disaster-risk financing and ecological investments.
- Encourages long-term sustainable land use over short-term resource exploitation.
- Promotes cooperative federalism by enabling States to integrate with national climate and biodiversity goals.

16th Finance Commission - mainstreaming environmental governance

- Shift from static to dynamic incentives – Rewarding ecological improvement rather than possession alone - 80% of the ecological allocation depends on existing weighted forest area, 20% is linked to an increase in forest cover (2015–2023).
- Broadened ecological coverage – Unlike the 15th FC, it includes open forests along with moderately dense and very dense forests, assigning differential weights based on ecological quality.
- Outcome-based fiscal incentives – Encourage measurable environmental performance rather than mere geographical endowments.
- Recognition of ecosystem services reflects the economic value of ecological assets.
- Alignment with SDGs, Nationally Determined Contributions (NDCs), and Mission LiFE,

integrating sustainability into fiscal federalism.

Limitations

- Benefits favour states with higher administrative capacity, while dense forest states with declining cover (e.g., Uttarakhand, Arunachal Pradesh) lose performance-linked transfers.
- Natural forests & plantations are treated similarly, risking incentives for commercial plantations.
- Ecological criterion remains only 10% of horizontal devolution, limiting behavioural change.
- Agroforestry, farm trees, carbon stocks, water security and pollution indicators remain outside the fiscal formula.

Conclusion:

Conclude by saying positive about the 16th FC's measures – like

The 16th Commission takes a meaningful step towards recognising forests as natural capital, rewarding existing forest assets while creating incentives for restoration and adaptation. It has set the direction; whether this translates into stronger conservation outcomes will depend on the weight given to these signals and on how states choose to respond.