

# 16th Finance Commission



Dr. Arvind Panagariya  
Chairman of 16th FC

**For Period 2026-27 to 2030-31**



“

The Modi government has accepted 16th Finance Commission recommendations to retain the vertical share of devolution at 41%.

**I have allocated Rs 1.4 lakh crores for states for FY2026-27.**



Smt Nirmala Sitharaman  
Minister of Finance and Corporate Affairs

[#ViksitBharatBudget](#)

# Key Recommendations

**Recommendation 1:** Keep States' share of Union taxes at 41% (2026–31)

**Recommendation 2:** Make tax devolution data publicly transparent (CAG-certified net proceeds)

**Recommendation 3:** Allocate States' share using a formula balancing “need” and “performance”

**Recommendation 4:** No special “gap-filling” grants for States with revenue deficits

**Recommendation 5:** Big 5-year grants to local governments (Panchayats & Municipalities)

**Recommendation 6:** Split local-body grants into Basic (80%) + Performance-linked (20%)

**Recommendation 7:** Tie a large part of local funds to water/sanitation/solid waste

**Recommendation 8:** Give extra incentives for urbanisation and fund wastewater systems

**Recommendation 9:** Force timely transfer of funds from States to local bodies (with penalty)

**Recommendation 10:** Strengthen State disaster response + mitigation funds; link some support to data reporting

**Let's Analyse The Sociological Impact**

## Recommendation 1: Keep States' share of Union taxes at 41% (2026–31)

### Sociological concepts:

- **T. H. Marshall: Social citizenship:** Fiscal devolution determines whether “welfare rights” are real across states or remain unequal by region.
- **John Rawls: Difference principle:** Redistribution is justified when it improves the situation of the worst-off regions/groups.
- **Andre Beteille: Formal equality vs substantive equality:** Even with equal constitutional status, unequal state capacity produces unequal lived outcomes (schools/health/services).
- **B. R. Ambedkar: Political vs social democracy:** Constitutional promises require fiscal capacity; otherwise “rights on paper” don't translate into everyday dignity.



**UNION BUDGET 2026-27**  
**STRENGTHENING COOPERATIVE FEDERALISM**

- Vertical share of Devolution of Funds at 41% to States
- Total devolution of ₹15.26 Lakh Crore for FY 2026-27

**For Telangana:**

- The amount allocated for 2026-27 is ₹33,180.78 crore, a 13.5% increase from the previous FY

## Recommendation 2: Make tax devolution data publicly transparent (CAG-certified net proceeds)

### Meaning:

- The Centre should publish clear, audited figures of how much “shareable tax money” exists and how it’s calculated.

### Sociological concepts:

- **Jurgen Habermas: Public sphere:** Transparency enables informed debate and democratic contestation over who gains/loses in redistribution.
- **Legitimacy of the state (Weberian idea):** Audited numbers reduce suspicion of arbitrariness and improve compliance/acceptance of fiscal authority.
- **Power/knowledge (Foucauldian):** Publishing fiscal truths changes bargaining power between Centre–States and also between citizens and government.

### New Conditions for Devolution

- Stricter fiscal discipline and greater transparency in tax devolution



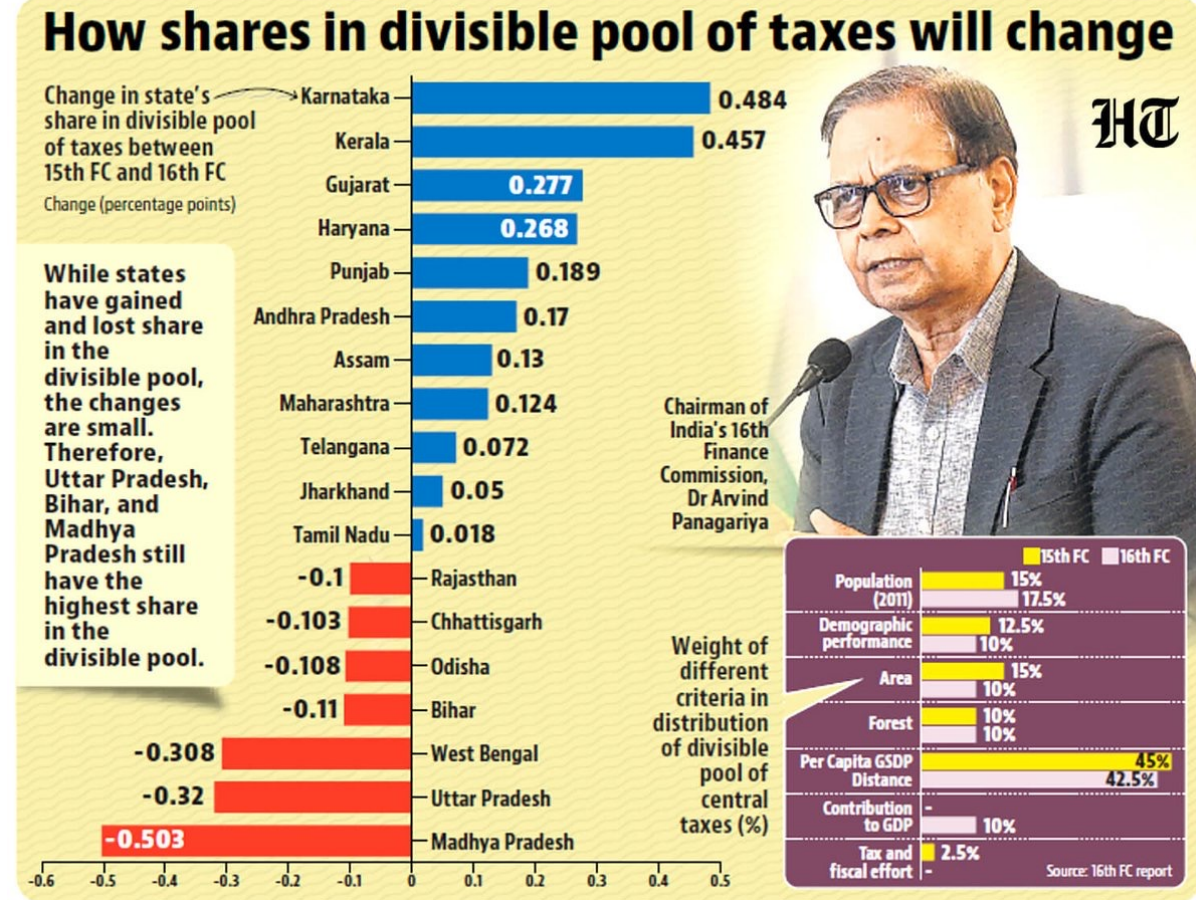
- A shift from entitlement-based federal transfers to compliance-driven fiscal federalism

- Union govt to annually disclose the net proceeds of Union taxes as certified by the CAG

## Recommendation 3: Allocate States' share using a formula balancing "need" and "performance"

### Sociological concepts:

- **Uneven development / spatial inequality:** Poorer states get corrective support via income-distance.
- **Demographic transition:** Fertility outcomes become financially "rewarded," showing governance through incentives.
- **Environmental justice:** Forest criterion recognises ecological burdens, often in tribal belts.
- **Need vs merit conflict:** GDP/performance criteria introduce "deservingness" debates in redistribution.



## Recommendation 4: No special “gap-filling” grants for States with revenue deficits

### Meaning:

- Unlike some earlier commissions, it does not give extra money just to cover a State’s routine deficit.

### Sociological concepts:

- **State capacity inequality:** Weaker states risk a low-capacity trap in social provisioning.
- **Territorial stratification:** Inter-state fiscal gaps translate into unequal schooling/health outcomes.
- **Path dependence:** Historical disadvantages remain harder to reverse without targeted correction.



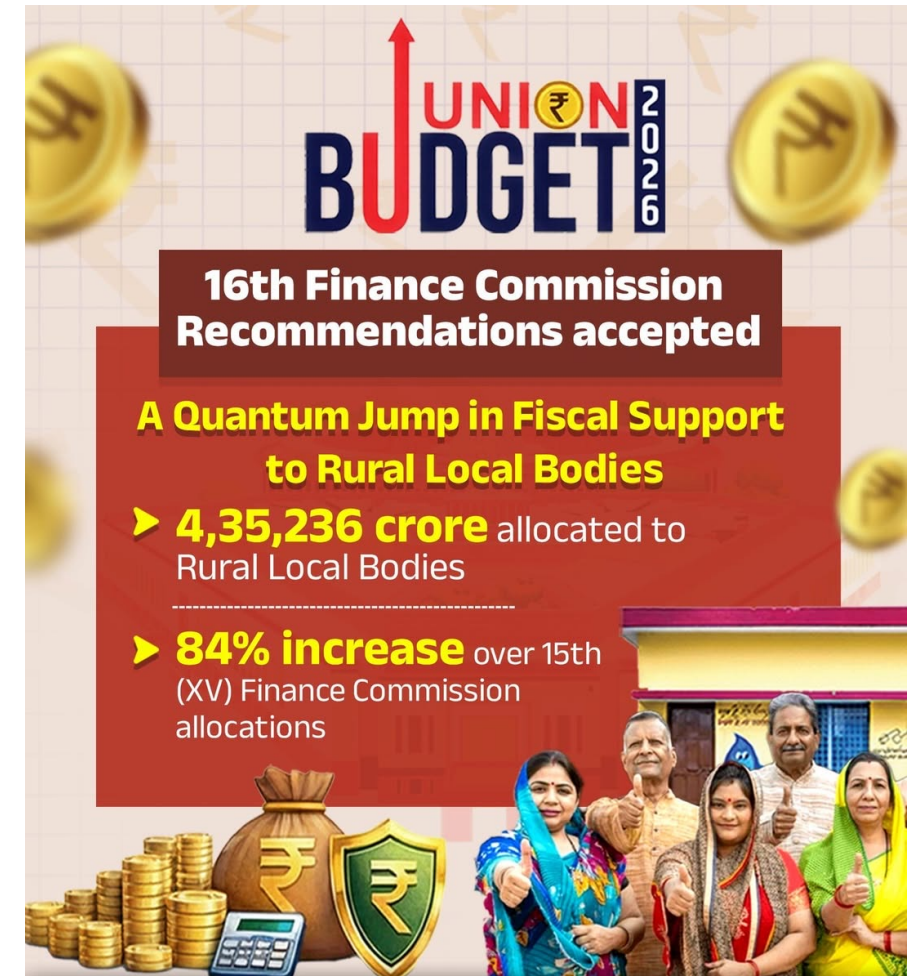
## Recommendation 5: Big 5-year grants to local governments (Panchayats & Municipalities)

### Meaning:

- A large earmarked fund is transferred to rural and urban local bodies for basic services.

### Sociological concepts:

- **Decentralisation & subsidiarity:** Governance shifts closer to everyday needs.
- **Participatory democracy:** Local bodies become sites of empowerment or elite capture.
- **Everyday state:** Citizens experience the state mainly through local service delivery.
- **Elite capture:** Local funds can either democratise welfare or be absorbed by local elites through patronage.



## Recommendation 6: Split local-body grants into Basic (80%) + Performance-linked (20%)

### Meaning:

- Most money is assured, but a portion is given only if performance/conditions are met.

### Sociological concepts:

- **Audit culture / New Public Management:** Governance via targets, indicators, compliance.
- **Michel Foucault: Governmentality:** Indicators and conditionalities discipline local institutions—rule through standards, not only through law.
- **Capability gaps (Amartya Sen's Capability Approach):** Low-capacity local bodies may lose funds, reproducing spatial inequality.

**Basic grants:** 50% of the basic grant will be untied and the rest 50% will be tied to: (i) sanitation and solid waste management, and/or (ii) water management.

**Performance grants:** These grants for local bodies are further divided into state performance grants and local body performance grants. State performance grants will be made available upon meeting a minimum benchmark for transfers to local bodies from their own resources. Local body performance grants are linked to achievement of minimum targets specified by the Commission for own source revenue growth.

## Recommendation 7: Tie a large part of local funds to water/sanitation/solid waste

### Meaning:

- A fixed part of local funds must be spent on public health essentials; limits on roads; untied funds not to be used for salaries.

### Sociological concepts:

- **Social determinants of health:** Infrastructure choices directly shape disease burden and dignity, especially for the poor.
- **Feminist care/social reproduction:** Sanitation/water policy affects women's unpaid labour, time poverty, safety, and bodily dignity.
- **Autonomy vs standardisation:** Tied grants reflect central steering—strong on minimum standards, weaker on local democratic choice.

### DRIVING THE FLOW

Year-wise allocation of tied grant (In ₹ crore)



### STATES WITH HIGHEST ALLOCATIONS



Source: IIT Kharagpur, Ministry of Water Resources

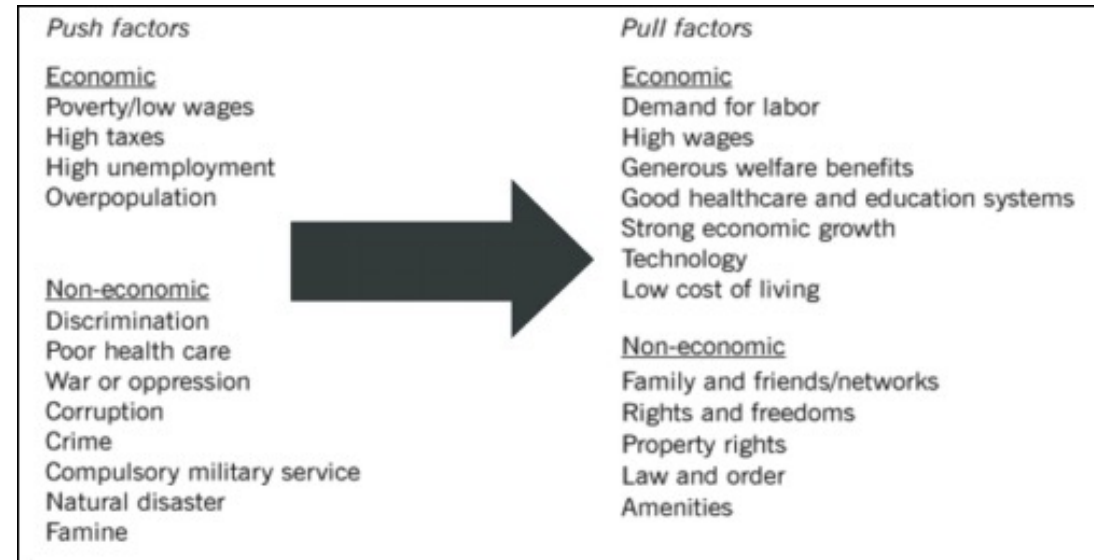
## Recommendation 8: Give extra incentives for urbanisation and fund wastewater systems

### Meaning:

- Additional money is provided to support areas becoming urban and to build/upgrade wastewater management in selected cities.

### Sociological concepts:

- **Urbanisation & migration:** Governing rural-urban transition, informality, peri-urban growth.
- **Urban ecology & environmental inequality:** Pollution burdens fall more on poorer localities; targeted infrastructure can reduce “toxic inequality.”
- **Dual city / segregation:** Risk of benefits clustering in privileged zones.



## **Recommendation 9: Force timely transfer of funds from States to local bodies (with penalty)**

### **Meaning:**

- States must pass on money quickly; delays require paying interest – reducing bottlenecks.

### **Sociological concepts:**

- **Bureaucratic gatekeeping (Weber):** Cuts discretionary control of higher tiers over local governance.
- **Multi-level governance:** Rebalances power in Centre–State–Local relations.
- **Institutional trust:** Predictable flows strengthen credibility of local democracy.

## Recommendation 10: Strengthen State disaster response + mitigation funds; link some support to data reporting

### Meaning:

- A large corpus supports relief and long-term risk reduction; states must upload/validate disaster data to access certain grants.

### Sociological concepts:

- **Social vulnerability:** Disaster harm is socially patterned by class/caste/gender/migration.
- **Ulrich Beck: Risk society:** Modern risks require mitigation governance; disasters reveal inequality in who bears harm.
- **Datafication & exclusion:** Data conditions improve targeting but may exclude digitally weak/remote regions.

## Heatwaves and lightning should be added to national disaster list, Finance Commission says

*Recommendation comes as states receive Rs 1.4 lakh crore in disaster and local body grants in Union Budget 2026-27*



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



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