

04th February 2026: DSC

16th Finance Commission & Urban Grants

Fiscal Federal Context

The 16th Finance Commission (FC) report, tabled in the Lok Sabha, outlines the framework for tax devolution and grants to local bodies, signalling enhanced fiscal recognition of rapid urbanisation, municipal financing needs, and decentralised service delivery.

The Commission has recommended ₹3.5 lakh crore for Urban Local Governments (ULGs) over a five-year period, representing an unprecedented scale-up in urban fiscal support amid growing infrastructure stress in Indian cities.

Relevance

GS II — Polity & Governance

Finance Commission (Article 280), fiscal federalism, Centre–State–ULB relations
Urban governance, decentralisation, municipal finance reforms

GS III — Economy

Urban infrastructure financing, municipal bonds, property tax reforms
Quality of public expenditure and strengthening local fiscal capacity

Background — Finance Commission & Urbanisation

Role of the Finance Commission

Established under Article 280, the Finance Commission recommends vertical and horizontal devolution of resources, including grants for local bodies, to strengthen fiscal capacity and cooperative federalism.

Urban grants are intended to improve first-mile infrastructure, service delivery, and municipal governance in sectors such as water supply, sanitation, mobility, and other local public goods.

Urbanisation Context

India's urban population is projected to approach 40% by 2036, intensifying pressure on housing, infrastructure, and public services, thereby necessitating stronger and more predictable municipal finances.

Key Recommendations — 16th FC

Quantum of Allocation

The Commission has recommended ₹3.5 lakh crore for ULGs over five years, nearly equalling the Centre's total spending on centrally sponsored urban schemes over the previous thirteen years combined.

This marks a 230% increase over the 15th FC allocation of ₹1.5 lakh crore (2021–26), signalling a decisive fiscal shift in favour of urban governance.

Share in Local Body Grants

The share of ULGs in total local government grants has been raised to 45%, up from 36% earlier, reflecting greater prioritisation of urban local bodies alongside Panchayati Raj Institutions.

Urbanisation Premium Grant

A dedicated ₹10,000 crore urbanisation premium grant has been introduced to incentivise

planned rural-to-urban transition and support emerging towns facing demographic and economic pressures.

Grant Design & Structure

Basic vs Tied Grants

Over 60% of grants are classified as basic grants, while tied grants focus on essential services such as water supply and sanitation to ensure minimum service benchmarks. Untied grants provide flexibility for local priorities, excluding salary and establishment expenditure, thereby promoting accountability and local decision-making.

State-wise Trends

Distribution Patterns

Kerala witnessed an allocation increase exceeding 400%, reflecting demographic indicators and urban governance performance.

Himachal Pradesh recorded nearly a 50% decline, possibly linked to lower urbanisation levels or changes in formula weightage.

Economic & Governance Significance

Strengthening Municipal Capacity

Enhanced grants can reduce dependence of ULGs on State transfers, improve own-source revenue mobilisation, boost creditworthiness, and expand the scope for municipal bond financing.

This supports decentralised delivery of public goods, improving urban productivity, livability, and competitiveness.

Urban Transition Support

The urbanisation premium acknowledges migration-driven town growth, helping finance infrastructure in peri-urban and census towns that lack formal governance capacity.

Data & Evidence

₹3.5 lakh crore recommended for ULGs

230% increase over the previous FC cycle

45% share of total local body grants

₹10,000 crore urbanisation premium

Over 60% allocation as basic grants

Challenges & Concerns

Implementation Risks

Limited municipal capacity, staffing shortages, and planning deficits may constrain effective utilisation of increased grants.

Low efficiency in property tax collection continues to undermine fiscal sustainability despite higher transfers.

Risk persists of grant dependence without parallel reforms in revenue mobilisation and governance.

Way Forward

Reform Priorities

Link grants with municipal finance reforms, digital property-tax systems, and rationalisation of user charges.

Strengthen urban planning capacity, GIS-based asset mapping, and participatory budgeting. Encourage municipal bonds and credit ratings, particularly for large urban centres.

Why Are Tribals Protesting in Maharashtra?

Why in News ?

In January 2026, thousands of tribal communities from Palghar and Nashik districts undertook long marches demanding land titles, irrigation support, and livelihood security due to pending forest rights claims.

The protests gained prominence as both districts have large tribal populations with long-standing grievances related to land recognition and access to welfare benefits.

Relevance

GS II — Polity & Social Justice

Forest Rights Act (2006), PESA (1996), Fifth Schedule governance
Tribal welfare, land rights, inclusion of Scheduled Tribes

GS III — Environment

Forest governance, conservation–livelihood trade-offs
Community-based natural resource management

Background — Tribal Land & Forest Rights

Constitutional Foundation

The Fifth Schedule mandates protection of tribal land and self-governance in Scheduled Areas, recognising historical injustice and the need for cultural and economic safeguards. Article 244 provides the administrative framework, while the PESA Act empowers Gram Sabhas in managing natural resources.

Forest Rights Act, 2006

The FRA recognises Individual Forest Rights (IFR), Community Forest Rights (CFR), and habitat rights of Scheduled Tribes and Other Traditional Forest Dwellers.

Its objective is to correct historical injustices arising from colonial forest laws that alienated tribals from customary lands.

Core Issues Behind the Protests

Land Title Concerns

Issued titles reportedly contain incorrect formats, joint listings, or partial recognition, limiting access to credit, schemes, and legal security.

Many cultivators received titles for only a fraction of the land they traditionally cultivated.

High Rejection Rates

Over 45% of FRA claims in Maharashtra have been rejected.

Out of 3,80,966 disposed claims, only 2,08,335 titles were granted, while 1,72,631 were rejected, indicating large-scale exclusion.

Digitisation & Record Gaps

Digitisation of land records has led to mismatches between ground reality and official data, causing procedural delays and claim denials.

Livelihood & Development Demands

Irrigation & Agriculture

Protestors demand small dams and river-linking to divert west-flowing rivers toward drought-prone eastern regions to enable multi-cropping and income stability.

Employment & Education

Secure land titles determine eligibility for institutional loans, welfare schemes, and educational benefits, linking FRA implementation directly to socio-economic mobility.

Governance & Policy Dimension

Implementation Deficit

FRA implementation varies widely due to bureaucratic caution, forest department resistance, and inconsistent interpretation of eligibility norms.

Ideological Tension

Ecologist Madhav Gadgil highlights the conflict between fortress conservation models and FRA's community-based conservation vision, framing the debate as "conservation versus forest rights".

IIT COUNCIL & ADAPTIVE JEE

Immediate Context

The IIT Council has proposed examining the introduction of adaptive testing for JEE-Advanced with the objective of creating a more refined, less stressful, and capability-oriented assessment system.

The proposal envisages a phased transition over two years (2026–2028), beginning with optional adaptive mock examinations from 2026 to allow calibration of test items and acclimatisation of candidates.

Relevance

GS II — Governance & Education

Reforms in education governance and examination systems
Transparency, fairness, and equality under Article 14

GS III — Science & Technology

Use of AI and data analytics in public testing
Digital governance and EdTech innovations

Background — Competitive Examinations in India

Linear Examination Model

Conventional competitive examinations rely on uniform question papers administered to all candidates, with merit determined by aggregate scores.

This system incentivises memorisation, coaching-intensive preparation, and test-taking strategies rather than genuine conceptual understanding.

Given the high-stakes nature of examinations like JEE, even minor score variations have long-term consequences, intensifying psychological pressure.

Rationale for Reform

Concerns regarding excessive stress, rote-oriented learning, and inadequate differentiation of conceptual ability have triggered discussions on modernising assessment frameworks.

Policymakers increasingly advocate aptitude-focused evaluation aligned with learning outcomes rather than recall-based performance.

What is Adaptive Testing?

Concept & Mechanism

Adaptive testing is based on Item Response Theory (IRT), where a computer algorithm dynamically selects questions according to a candidate's responses. The test typically begins with medium-difficulty items; correct answers prompt harder questions, while incorrect responses lead to easier ones, enabling continuous refinement of ability estimates.

Assessment Logic

The approach seeks to measure a candidate's true ability more precisely using fewer but well-targeted questions. Although candidates may face different sets of questions, scores are standardised on a common ability scale, ensuring comparability.

Advantages of Adaptive Testing

Pedagogical Benefits

Adaptive testing prioritises conceptual clarity and logical reasoning, as only candidates demonstrating competence advance to high-difficulty, high-weightage questions. It discourages random guessing and superficial preparation, thereby improving the validity of merit ranking.

Efficiency & Fairness

Shorter examinations with equivalent reliability reduce fatigue and anxiety for candidates while lowering administrative and logistical burdens. Fairness is embedded in the design since difficulty adjusts to individual performance rather than relying on post-exam normalisation. Such systems have been used globally for over two decades in examinations such as GRE and GMAT.

Legal & Constitutional Concerns

Equality Debate

Under Article 14, equality in examinations has traditionally been interpreted as identical question papers for all candidates. Adaptive testing, by presenting different questions, may invite judicial scrutiny unless fairness is demonstrably ensured through scientific validation.

Algorithmic Transparency

Opaque algorithms may raise concerns about bias or discrimination. To prevent legal challenges, transparent methodology disclosures, independent audits, and robust grievance-redress mechanisms are essential.

Operational Challenges

Infrastructure Risks

Adaptive testing requires highly reliable digital infrastructure, particularly in tier-2 and tier-3 regions, where connectivity issues could be contested as maladministration. Secure data centres, advanced proctoring, and real-time incident management must exceed existing examination standards.

Question Bank Development

Implementation demands extensive, calibrated item banks covering the entire syllabus, with pre-tested difficulty levels and strict safeguards against leakage. Developing and maintaining such repositories is both technically complex and administratively demanding.

Transition Strategy

Phased Rollout

A gradual transition with optional adaptive mock tests allows candidates to familiarise themselves and enables authorities to refine calibration models. Phased implementation reduces resistance, builds trust, and mitigates systemic risk.

Learning from Global Practice

Experiences from GRE and GMAT suggest that acceptance improves when testing bodies communicate clearly, publish technical documentation, and ensure consistency over time.

Broader Significance

Education Reform Lens

The proposal reflects a shift toward competency-based assessment consistent with the National Education Policy (NEP) 2020 emphasis on critical thinking over rote learning. It also highlights the growing role of AI, data science, and psychometrics in public-sector decision-making.

Safeguards

Independent psychometric audits, multilingual accessibility, legal preparedness, and transparent grievance systems must precede full-scale adoption.

DAY-NRLM AT CROSSROADS (2026–31 CYCLE)

Current Context

The Deendayal Antyodaya Yojana–National Rural Livelihoods Mission (DAY-NRLM) is approaching appraisal for the 2026–27 to 2030–31 phase, prompting reassessment of its strategy for strengthening women’s livelihoods, enterprise development, and institutional sustainability.

While the programme is widely recognised for mobilising women-led collectives and expanding financial inclusion, the next phase demands deeper institutional reform and stronger market integration.

Relevance

GS II — Social Justice

Self-Help Groups (SHGs), women empowerment, poverty alleviation
Direct Benefit Transfer delivery and grassroots institutions

GS III — Economy

Financial inclusion, microfinance, rural entrepreneurship
Livelihood diversification and credit systems

Background — DAY-NRLM

Programme Overview

DAY-NRLM, implemented by the Ministry of Rural Development, seeks to reduce rural poverty through SHG-based social mobilisation, access to formal credit, and promotion of sustainable livelihoods, particularly for women from poor households.

The mission emphasises capacity building, enterprise development, and community-managed institutions.

Institutional Architecture

The programme operates through a three-tier structure: Self-Help Groups (SHGs) at the base, federated into Village Organisations (VOs), which in turn form Cluster-Level Federations (CLFs), ensuring decentralised and participatory governance.

Scale & Achievements

Mobilisation & Financial Inclusion

Approximately 10 crore rural households have been mobilised into nearly 91 lakh SHGs, federated into about 5.35 lakh VOs and over 33,000 CLFs.

SHGs have mobilised around ₹11 lakh crore in bank credit with non-performing assets of roughly 1.7%, demonstrating strong repayment discipline.

Women's Economic Gains

More than 2 crore women have emerged as “Lakhpati Didis,” reflecting income enhancement through micro-enterprises and diversified livelihoods.

Participation in SHGs has also improved financial literacy, asset ownership, and bargaining power within households.

Political & Social Empowerment

Women's collectives increasingly influence local governance, service delivery, and DBT implementation.

Several States leverage SHG networks for welfare schemes, reinforcing their role as grassroots governance partners.

Core Concerns

Weakening Autonomy of CLFs

CLFs are increasingly reported to be subordinate to government officials, undermining their autonomy and diluting the original vision of self-managed community institutions.

Idle Funds & Accountability

Community institutions reportedly hold large capitalisation funds, creating risks of idle resources, weak utilisation, and misuse in the absence of strong statutory and social audit mechanisms.

Credit Constraints

SHG members seeking to scale enterprises face barriers due to lack of individual credit histories and CIBIL scores, limiting access to larger formal loans.

Financial & Institutional Gaps

Uniform Loan Products

Standardised loan tenures and interest structures fail to reflect the diversity of rural livelihoods, reducing efficiency and enterprise viability.

Greater reliance on community-led credit appraisal could improve outcomes.

Limited Financing Models

The ecosystem remains heavily debt-driven, with minimal use of equity, venture capital, or blended finance, restricting growth potential of successful enterprises.

Need for Convergence

Siloed Implementation

Livelihood initiatives across ministries and departments operate in silos, leading to duplication and diluted impact.

Convergence efforts are often officer-driven and lack institutional permanence.

Institutional Solution

A proposed Convergence Cell at NITI Aayog could streamline coordination across ministries, align resources, and enhance outcome efficiency.

Market Linkage Deficit

Marketing Constraints

Weak branding, packaging, pricing strategies, and logistics limit competitiveness of SHG products.

Absence of a dedicated marketing vertical restricts scale and market visibility.

Proposed Solutions

Creation of a national marketing platform and professional State-level agencies could strengthen market access.

Select CLFs can be developed as aggregation and logistics hubs.

Way Forward

Institutional Reforms

Restore CLFs as autonomous, community-owned institutions supported by professional management and strong audit frameworks.

Financial Deepening

Develop customised financial products, facilitate CIBIL score generation, and partner with SIDBI, NBFCs, and emerging digital lenders.

Livelihood Planning

Adopt Village Prosperity and Resilience Plans (VPRPs) for annual livelihood planning, enterprise targeting, and risk mitigation.

Broader Significance

Inclusive Growth Perspective

DAY-NRLM directly advances SDGs related to poverty reduction, gender equality, and decent work.

A strengthened SHG ecosystem can act as a foundation for rural entrepreneurship, local value chains, and inclusive economic transformation.

MOUNTAIN GORILLA CONSERVATION & ONE HEALTH MODEL

Current Event

Global attention has focused on Uganda's success in conserving mountain gorillas, particularly due to international recognition of Dr. Gladys Kalema-Zikusoka's work. Her One Health-based conservation model, implemented through Conservation Through Public Health (CTPH), integrates wildlife health, community well-being, and ecosystem protection, demonstrating how conservation outcomes improve when linked with livelihoods and disease prevention.

Relevance

GS III — Environment

Biodiversity conservation, flagship species protection, eco-tourism
One Health approach linking human, animal, and ecosystem health

GS II — Governance

Community participation in conservation
Public health-environment interface

Why is it in News?

Policy & Conservation Relevance

Uganda's mountain gorilla recovery highlights the effectiveness of community-centric conservation strategies, where public health interventions, tourism revenue-sharing, and local participation reversed population decline caused by poaching and political instability. The model has gained relevance amid rising global concern over zoonotic diseases, human-wildlife conflict, and sustainable conservation governance in biodiversity-rich developing countries.

Mountain Gorillas

Species Basics

The mountain gorilla (*Gorilla beringei beringei*) is a critically endangered great ape species found only in the high-altitude forests of Central Africa, particularly Uganda, Rwanda, and the Democratic Republic of Congo.

They inhabit montane and bamboo forests at elevations between 2,200 and 4,300 metres, with a global population of roughly 1,000 individuals, making them among the rarest primates.

Ecology & Behaviour

Mountain gorillas are primarily herbivorous, feeding on leaves, shoots, and stems, and play a vital ecological role in seed dispersal and forest regeneration.

They exhibit slow reproductive rates, with birth intervals of four to five years, limiting rapid population recovery and increasing vulnerability to external threats.

Threats

Major threats include habitat encroachment, poaching, spillover effects of regional conflicts, and transmission of respiratory diseases from humans due to close genetic similarity. Historically, poaching and instability reduced the Virunga gorilla population from around 400–500 individuals in the 1960s to nearly 260–290 by the 1980s.

Conservation Significance

Flagship Species Role

Mountain gorillas function as a flagship species, attracting conservation funding, tourism revenue, and global attention that benefits wider ecosystem protection.

Eco-tourism & Livelihoods

Gorilla tourism generates substantial income, incentivising local communities and governments to invest in protection, similar to the role of tiger tourism in India.

One Health Model

Concept

The One Health approach recognises the interconnectedness of human health, animal health, and ecosystem health, particularly in regions with close human–wildlife interaction.

Application in Uganda

By improving community healthcare, sanitation, and disease awareness around protected areas, Uganda reduced disease transmission risks to gorillas while enhancing local support for conservation.

Broader Significance

The success of the mountain gorilla model demonstrates that conservation cannot be isolated from social development and public health.

It provides a replicable framework for countries balancing biodiversity protection with livelihood needs and disease-risk management.

16th FINANCE COMMISSION ON EXIT CLAUSES

Core Update

The 16th Finance Commission has recommended the inclusion of exit clauses in cash transfer and subsidy schemes, cautioning States against open-ended welfare programmes that impose long-term fiscal burdens.

The recommendation comes amid a rapid expansion of State-level Direct Benefit Transfers (DBTs) and subsidies, particularly in the run-up to elections, raising concerns over fiscal sustainability.

Relevance

GS II — Polity & Governance

Fiscal federalism, welfare governance, subsidy design
Role of the Finance Commission in enforcing fiscal discipline

GS III — Economy

Freebies versus welfare debate
Fiscal sustainability and quality of public expenditure
Fiscal Responsibility and Budget Management (FRBM) norms

Why is it in News?

Fiscal Concern

Several States have significantly increased spending on cash transfers and subsidies during the 2023–26 budget period, prompting concerns about rising revenue expenditure crowding out developmental and capital spending. The Finance Commission's recommendation revives the debate on competitive populism, welfare efficiency, and responsible fiscal management.

Background — Finance Commission

Constitutional Role

Article 280 mandates the Finance Commission to recommend tax devolution and grants-in-aid between the Centre and States.

Over time, its advisory role has expanded to include guidance on fiscal sustainability, macroeconomic stability, and expenditure quality.

Key Observations of the 16th Finance Commission

Rising Subsidy Burden

States such as Jharkhand, Odisha, and Madhya Pradesh have witnessed sharp increases in DBTs and subsidy outlays, in some cases recording double-digit annual growth. Such schemes risk becoming permanent revenue commitments rather than temporary social protection measures.

Exit Clause Logic

The Commission recommends incorporating sunset clauses, periodic reviews, and outcome-based evaluations into welfare schemes.

This ensures that subsidies do not continue indefinitely without fiscal space, effectiveness assessment, or developmental justification.

Economic Significance

Fiscal Sustainability

Persistent expansion of revenue expenditure on transfers limits fiscal room for capital expenditure on infrastructure, health, education, and growth-enhancing investments. Uncontrolled freebies can raise debt-to-GSDP ratios and interest burdens, weakening long-term State finances.

Welfare Efficiency

While well-designed welfare programmes enhance equity and social protection, unconditional and poorly targeted transfers may distort incentives and reduce allocative efficiency.

Governance Dimension

Populism vs Fiscal Responsibility

Competitive populism among States risks triggering a fiscal “race to the bottom,” undermining cooperative federalism and macroeconomic stability.

The Finance Commission stresses evidence-based welfare design rather than politically motivated expansion.

Way Forward

Reform Directions

Introduce sunset clauses and mandatory outcome evaluations in welfare schemes. Improve beneficiary targeting and avoid universal, untargeted transfers. Link DBTs to human capital outcomes such as health, education, and skill development. Strengthen State-level fiscal responsibility frameworks and transparency in subsidy accounting.

Broader Significance

The recommendation seeks to balance social justice objectives with fiscal prudence, ensuring that welfare spending remains sustainable, growth-oriented, and aligned with long-term development priorities.

04th February 2026: Daily MCQs

Q1. With reference to the 16th Finance Commission’s recommendations on Urban Local Governments (ULGs), consider the following statements:

1. The Commission recommended ₹3.5 lakh crore for ULGs for a five-year period.
2. The share of ULGs in total local body grants was increased compared to the 15th Finance Commission.
3. All urban grants are fully untied and can be used for salary and establishment expenditure.

Which of the statements given above are correct?

- (a) 1 and 2 only
- (b) 2 and 3 only
- (c) 1 and 3 only
- (d) 1, 2 and 3

Answer: (a)

Explanation: ₹3.5 lakh crore was recommended and ULG share rose to 45%. Grants exclude salary and establishment costs and include tied components.

Q2. With reference to the Forest Rights Act (FRA), 2006, consider the following statements:

1. It recognises Individual Forest Rights as well as Community Forest Rights.
2. It applies only to Scheduled Tribes and excludes Other Traditional Forest Dwellers.
3. Its objective includes correcting historical injustice caused by colonial forest laws.

Which of the statements given above are correct?

- (a) 1 only
- (b) 1 and 3 only
- (c) 2 and 3 only
- (d) 1, 2 and 3

Answer: (b)

Explanation: FRA applies to both Scheduled Tribes and Other Traditional Forest Dwellers and aims to correct historical injustice.

Q3. Adaptive testing, as proposed for JEE-Advanced, differs from traditional examinations in which of the following ways?

1. Question difficulty dynamically changes based on candidate responses.
2. All candidates receive identical question papers.
3. It relies on Item Response Theory for ability estimation.

Select the correct answer using the code below:

- (a) 1 and 3 only
- (b) 2 and 3 only
- (c) 1 only
- (d) 1, 2 and 3

Answer: (a)

Explanation: Adaptive testing adjusts difficulty dynamically and uses Item Response Theory; identical question papers are not used.

Q4. With reference to the Deendayal Antyodaya Yojana–National Rural Livelihoods Mission (DAY-NRLM), consider the following statements:

1. It is implemented by the Ministry of Rural Development.
2. Its institutional structure includes SHGs, Village Organisations, and Cluster-Level Federations.
3. The programme is exclusively focused on providing cash transfers to women beneficiaries.

Which of the statements given above are correct?

- (a) 1 and 2 only
- (b) 2 and 3 only
- (c) 1 and 3 only
- (d) 1, 2 and 3

Answer: (a)

Explanation: DAY-NRLM focuses on mobilisation, credit, and livelihoods, not direct cash transfers alone.

Q5. Consider the following statements regarding the One Health approach highlighted in mountain gorilla conservation:

1. It recognises the interdependence of human, animal, and ecosystem health.
2. It focuses exclusively on wildlife protection without addressing community health.
3. It is relevant for managing zoonotic disease risks.

Which of the statements given above are correct?

- (a) 1 and 3 only
- (b) 1 and 2 only
- (c) 2 and 3 only
- (d) 1, 2 and 3

Answer: (a)

Explanation: One Health integrates human, animal, and environmental health and is crucial for zoonotic disease prevention.

Mains: The 16th Finance Commission marks a decisive shift towards strengthening urban local governments in India. Examine the significance of enhanced urban grants for fiscal federalism and urban governance. What challenges may limit their effective utilisation? (GS II / GS III | 250 words)

