

# **Beyond Forest Cover: Reimagining India's Environmental Fiscal Transfers**

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## ABSTRACT

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India's fiscal federal structure has taken a leap by incorporating environmental concerns into its intergovernmental tax devolution formula, using forest cover as a proxy for ecological value. While this shift reflects the recognition of nature into the fiscal arena, the singular reliance on forest cover is insufficient in capturing the heterogeneity of ecological services across the country. This study examines the limitations of the current framework and proposes an expanded approach to these transfers that integrates a broader spectrum of ecosystems including grasslands, wetlands, and water bodies. Employing a scenario-based empirical analysis using state-wise share in devolution and ecological data (2017–2023), this research recalculates inter-se shares under multiple ecosystem integration formulas. Findings demonstrate that incorporating diverse ecosystems leads to more equitable and representative fiscal allocations. This study contributes to policy discourse by highlighting the need for inclusive, performance-based, and data-driven approaches to ecological federalism in India.

**Keywords:** Environmental Fiscal Transfers, Biodiversity, Intergovernmental Transfers, Finance Commission, Fiscal Federalism

**JEL Classification Codes:** H77, Q57, Q58, R5