



ENVIRONMENT

Environmental (Protection) Fund Rules, 2026: Converting Penalties Into Green Investments

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On 15 January 2026 the Ministry of Environment, Forest and Climate Change (MoEFCC), exercising the rule-making power conferred by sections 6 and 25 of the Environment (Protection) Act, 1986 and after due consultation with the Comptroller and Auditor-General of India, notified the Environmental (Protection) Fund Rules, 2026. Heralded as the first comprehensive fiscal instrument dedicated exclusively to environmental protection, the Rules create a non-lapsable fund in the Public Account of India, prescribe an immutable 75:25 Centre-State sharing formula, and impose an activity-positive as well as an item-negative list that together re-calibrate the entire life-cycle of an environmental penalty from imposition, through collection, to transparent, audit-proof deployment.

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Short Title, Commencement and Definition

The instrument is styled the Environmental (Protection) Fund Rules, 2026 and came into force on the date of its publication in the Gazette of India. “Fund” is defined as the Environmental Protection Fund constituted under section 16 of the parent Act; “Administrator” means the MoEFCC or anybody the Central Government may notify; “Competent Authority” is the Union Minister for Environment, Forest and Climate Change; and “year” is the financial year commencing on 1 April. All undefined expressions carry the meaning assigned in the Environment (Protection) Act, 1986.

Utilisation Paradigm

Rule 3 sets out an illustrative yet exhaustive catalogue of permissible deployments. The fund may be applied for installing, operating and upgrading ambient-air, water-quality and noise-monitoring networks; developing or modernising environmental laboratories and associated research infrastructure; sponsoring research and development on clean technologies; assessing and remediating contaminated sites; strengthening the institutional capacity of State Environment Impact Assessment Authorities, State Expert Appraisal Committees, Central and State Pollution Control Boards, Pollution Control Committees, Air-Quality Management Commissions and Urban Local Bodies; creating information technology enabled systems; executing directions issued by courts and tribunals; financing awareness programmes including eco-clubs; supporting demonstration projects that deploy innovative clean technologies; and undertaking any other measure approved by the Competent Authority for the protection and betterment of the environment.

Administrative expenditure is capped rigorously: salaries, emoluments, office equipment, furniture, audit and professional services relating to fund management cannot exceed five per cent of the closing balance in any financial year. Until the fund achieves critical mass such expenditure is to be met from respective government budgets, ensuring that the nascent corpus is not eroded by overhead costs.

Conversely, Rule 3(2) contains an explicit negative list. The fund shall not be diverted to payment of medical expenses, foreign travel, construction of office or residential buildings, or procurement of furniture, office equipment, vehicles, air-conditioners or generator sets for government offices. This prohibition is absolute and non-delegable.

Sources of Receipt

Rule 4 stipulates that every sum collected by way of penalty under the Air (Prevention and Control of Pollution) Act, 1981, the Water (Prevention and Control of Pollution) Act, 1974 and the Environment (Protection) Act, 1986 shall be credited to the fund. In addition, any other income received under section 16(2) of the 1986 Act and approved by the Competent Authority is also to

be channelled into the corpus.

Manner of Crediting

Rule 5 operationalises a two-step, technology-driven collection mechanism. The defaulting party remits the penalty online through the Central Government's Bharatkosh portal; the amount first enters the Consolidated Fund of India and is thereafter transferred to the Public Account under the head "Environmental Protection Fund". The Rules mandate an immutable sharing ratio: seventy-five per cent is allocated to the concerned State or Union Territory and twenty-five per cent is retained by the Centre. Each State or Union Territory must open a distinct reserve fund in its Public Accounts; monies so reserved can be utilised solely for the purposes enumerated in Rule 3, thereby achieving complete ring-fencing.

Governance and Administration

Rule 6 creates a dedicated Project Management Unit (PMU) at both the federal and regional levels. The Central PMU is headed by an officer not below the rank of Joint Secretary to the Government of India, while State and Union Territory PMUs are headed by Secretaries to the respective governments. The PMU is the nerve-centre of the regime: it maintains detailed accounts, sanctions disbursements, preserves vouchers, engages legal and financial consultants, and assists the Administrator in every matter incidental to the administration of the fund. Every payment into the fund must be accompanied by Form-I, a composite challan that doubles as a KYC document. At the close of each financial year the State or Union Territory must furnish an annual statement of accounts in Form-II(b) and an activity report in Form-III, ensuring seamless vertical accountability.

Annual Accounts and Reporting

Rule 7 prescribes granular formats. Form-II(a) is to be used by the Central Government; Form-II(b) by each State and Union Territory; and Form-III serves as the unified annual report. These instruments capture opening balances, penalty inflows, interest earnings, state-wise disbursements, unspent balances, savings or excesses, implementing agencies and explanatory notes for shortfalls. The annual report is to be laid before Parliament or the concerned State Legislature, thereby subjecting the fund to the full glare of legislative oversight.

Audit

Rule 8 entrenches the constitutional audit architecture. The Comptroller and Auditor-General of India is empowered to audit the accounts of the fund at such intervals as he deems fit, and his report is to be placed before Parliament and every State Legislature. Simultaneously, the Administrator and the concerned State departments are authorised to conduct internal audits at regular intervals, creating a dual layer of financial scrutiny.

Online Portal

Rule 9 imposes a digital governance obligation on the Central Pollution Control Board. The Board is to develop and maintain an exclusive online portal that acts as a single interface among penalty-paying entities, adjudicating authorities, pollution control regulators, accountant-generals and civil society. Once operational, the portal will enable real-time payment tracking, utilisation dashboards and compliance monitoring, completing the transparency loop envisaged by the 2026 Rules.

Concluding Paragraph

By metamorphosing every monetary sanction for environmental infraction into an earmarked investment for ecological restoration, the Environmental (Protection) Fund Rules, 2026 convert deterrence into deliverables. The architecture is fiscally disciplined (5 % administrative ceiling), institutionally collaborative (mandatory PMUs), financially transparent (CAG audit and parliamentary tabling) and technologically accountable (dedicated portal). If implemented with the rigour the text commands, the regime promises not merely to punish polluters but to finance the very monitoring, remediation and capacity-building infrastructure that will prevent future violations thereby shifting the environmental compliance narrative from reactive penalty to proactive protection.

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