



Grant in Aid for Rural Local Bodies

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Why in News

Recently, the **Ministry of Finance** has released an amount of Rs. 13,385.70 crore to 25 States for providing grants to the **Rural Local Bodies**.

- This **Grant-in-aid** is the **1st installment of Tied grants** of the year 2021-22.
- The grants have been released as per the recommendations of the **15th Finance Commission**.

Key Points

- **Finance Commission (FC) Grants:**
 - The **Union Budget** provides **funds to local bodies, state disaster relief funds** and **compensates any revenue loss** to states after devolution of taxes on the recommendation of FC.

The **73rd Constitutional Amendment**, 1992 requires both the Centre and states to help Panchayati Raj institutions to evolve as a **unit of self-governance** by assigning them funds, functions and functionaries.
 - The 15th FC has recommended **over 1 lakh 42 thousand crore rupees** tied to Panchayats for water & sanitation during the period 2021-22 to 2025-26.
- **Tied vs United Grant:**
 - Out of the total Grant-in-aid allocated for Panchayati Raj institutions, **60% is 'Tied Grant'**. Tied grants are meant to ensure availability of additional funds to the Rural local bodies over and above the funds allocated by the Centre for **improving the sanitation and maintenance of Open-Defecation Free (ODF) status** and **supply of drinking water, rain water harvesting and water recycling** under the **Centrally Sponsored Schemes**.
 - **Remaining 40% is 'Untied Grant'** and is to be utilized at the discretion of the Panchayati Raj institutions for location specific needs, except for payment of salaries.

- **Allocation of Resources:** The States are required to transfer the grants to the Rural local bodies within 10 working days of their receipt from the Union Government.
Any delay beyond 10 working days requires the State Governments to release the grants with interest.

Finance Commission (FC)

- The FC is a constitutional body that determines the formula for distributing the tax proceeds between the Centre and states, and among the states as per the constitutional arrangement and present requirements.
- Under **Article 280** of the Constitution, the **President of India** is required to constitute a FC at an interval of five years or earlier.
- The **15th FC** was constituted in November 2017, under the chairmanship of **NK Singh**. Its recommendations will cover a period of five years from the year 2021-22 to 2025-26.

Division of FC Grants

- **Grants for Rural Local Bodies:** The three-tier model of governance envisioned in the Constitution assigns clear roles and responsibilities to Gram Panchayats.
 - The FC recommendations ensure that these local bodies are adequately funded.
 - In fact, nearly half of the FC Grants in the Union Budget goes to village local bodies.
- **Grants for Urban Local Bodies:** In addition to units of self-governance at the village level, the Constitution also envisages cities as units of self-governance. Urban local bodies like municipal councils receive the largest chunk of FC Grants after Rural Local Bodies and Post Devolution Deficit Grants to states.
- **Assistance to SDRF:** The central government also provides funds to State Disaster Relief Funds in addition to funding the **National Disaster Management Authority (NDMA)**.
The assistance to the state government's disaster relief authorities is provided as per the recommendations of the FC.
- **Post Devolution Revenue Deficit Grants:** About a third of the total revenue collected by the Centre is directly transferred to states as their share in the divisible pool.
 - However, the FC also provides a mechanism for compensation of any loss incurred by states, which is called post-devolution revenue deficit grants.
 - This grant forms the second largest chunk of FC transfers after the assistance to local rural bodies.

- In addition to the four main transfers under the FC Grants, the Centre also transfers a considerable sum to states and vulnerable groups from its own resources.
 - Central pool of resources for north-eastern region and Sikkim
 - Externally aided project grants
 - Externally aided project loans
 - Schemes for north-east council
 - Schemes under **Article 275 (1)** of the Constitution
 - Special central assistance to scheduled castes and special central assistance to tribal areas.

Source: PIB