



Grant in Aid for Rural Local Bodies

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 Untied 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

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