

Grant in Aid for Rural Local Bodies under 15th Finance Commission

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In news : Ministry of Finance has released an amount of over 12,351 crore rupees to 18 states for providing grants to the Rural Local Bodies.

Key updates

Current one is the 2nd instalment of basic grants released in the financial year 2020-21.

The grant has been released to 18 states who have provided the Utilisation Certificate for the first instalment and on the recommendation of the Panchayati Raj Ministry.

Grant in aid to Rural Local Bodies as per 15th Finance Commission

- The grants to RLBs are released as per the recommendations of the 15th Finance Commission (Headed by N.K Singh) to create community assets and improve financial viability of the RLBs.
- The grants are provided to all the three tiers of Panchayati Raj – Village, Block and District to enable pooling of resources across villages and blocks.
- The 15th Finance Commission has recommended two types of grants to the RLBs – basic and tied grants. Basic grants can be used by the local bodies for location specific felt needs except for salary or other establishment expenditure. The tied grants are to be used for the basic services of sanitation and maintenance of Open Defecation Free status and supply of drinking water, rain water harvesting and water recycling

- The Fifteenth Finance Commission (XV FC) in its report for 2020-21 has recommended grants for Rural Local Bodies (RLBs) in 28 States.
- The grants have been recommended for all tiers of the Panchayati Raj and also to the Fifth and Sixth schedule areas.
- The grants are provided in two parts, namely,
 1. **Basic (Untied) Grants:** Basic grants can be used by the local bodies for location specific felt needs except for salary or other establishment expenditure
 2. **Tied Grants in the ratio of 50:50:** The tied grants can be used for the basic services of (a) sanitation and maintenance of Open-Defecation Free (ODF) status and (b) supply of drinking water, rain water harvesting and water recycling.
- The RLBs shall, as far as possible, earmark one half of these Tied Grants each to these two critical services.
- However, if any RLB has fully saturated the needs of one category, it can utilize the funds for the other category.
- The total size of the XV FC Grants allocation recommended is Rs.60,750 crore in 2020-21. Grants to RLBs are to be released in two equal installments.
- The State Governments will be distributing the XV FC Grants to all the tiers of panchayats – village, block and district and the traditional bodies of Fifth and Sixth Schedule areas based on the accepted recommendations of the latest State Finance Commission (SFC) and in conformity of the following bands recommended by XV FC.
 1. 70-85 % for village/gram panchayats
 2. 10-25 % for block/intermediate panchayats
 3. 5-15 % for district/zilla panchayats
- In states having two-tier system with only village and district panchayats, the distribution will be in the bands of 70-85 % for village/gram panchayats and 15-30%

for district/zilla panchayats

- The intra-tier distribution among the relevant entities in a tier across the State (including Fifth and Sixth Schedule areas) will be on the basis of population and area in the ratio of 90:10 or as per the accepted recommendations of the latest SFC.

About the Finance Commission

- The Finance Commission is a constitutional body formed by the President of India to give suggestions on centre-state financial relations.
- Set up under Article 280 of the Constitution, its core responsibility is to evaluate the state of finances of the Union and State Governments, recommend the sharing of taxes between them, lay down the principles determining the distribution of these taxes among States.
- Its working is characterised by extensive and intensive consultations with all levels of governments, thus strengthening the principle of cooperative federalism.
- Its recommendations are also geared towards improving the quality of public spending and promoting fiscal stability.
- The first Finance Commission was set up in 1951 and there have been fifteen so far. Each of them has faced its own unique set of challenges.
- The 15th Finance Commission headed by N.K Singh is required to submit two reports.
 - The first report consists of recommendations for the financial year 2020-21.
 - The final report with recommendations for the 2021-26 period has been submitted recently

The amount of tax devolution to the states, and its calculation

- The Finance Commission uses certain criteria when

deciding the devolution to states.

- For instance, income **distance criterion** has been used by the 14th and 15th Finance Commissions. Under this criterion, states with lower per capita income would be given a higher share to maintain equity among states.
- Another example is **Demographic Performance criterion** which has been introduced by the 15th Finance Commission. The Demographic Performance criterion is to reward efforts made by states in controlling their population.

Criteria used by 15th Finance Commission

The 15th Finance Commission used the following criteria while determining the share of states:

- 45% for the income distance
- 15% for the population in 2011
- 15% for the area
- 10% for forest and ecology
- 12.5% for demographic performance, and
- 2.5% for tax effort.

For 2020-21, the Commission has recommended a total devolution of Rs 8,55,176 crore to the states, which is 41% of the divisible pool of taxes. This is 1% lower than the percentage recommended by the 14th Finance Commission.

Uttar Pradesh and Bihar have received the largest devolutions for 2020-21, receiving Rs 1,53,342 crore, and Rs 86,039 crore respectively. Karnataka and Kerala saw the largest decreases in the share of the divisible pool with a decrease of 0.49% and 0.25% respectively.