Aid for Rural Local Bodies-Finance commission

Paper-2 Governance (Mains)

Finance Commission

It is a constitutional body, that determines the method and 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 Finance Commission at an interval of five years or earlier.

The 1st FC was set up in 1951 and there have been fifteen so far. The 15th FC headed by N.K. Singh was constituted by the President of India on 27th November 2017, against the backdrop of the abolition of the Planning Commission and the introduction of the Goods and Services Tax (GST). In November 2019, the Union Cabinet approved the 15th FC to submit its first report for the first fiscal year 2020-21 and to extend its tenure to provide for the presentation of the final report covering Financial Years 2021-22 to 2025-26 by 30th October, 2020.

In News:

Recently, the Ministry of Finance has released a part of grants-in-aid of Rs. 15187.50 crore for around 2.63 lakh Rural Local Bodies (RLBs) of 28 States.

This has been made on the recommendations of the Ministry of Panchayati Raj and the Department of Drinking Water and Sanitation, Ministry of Jal Shakti.

This forms part of the Tied Grant as recommended by the 15th Finance Commission (FC) for the Financial Year (FY) 2020-2021.

Imp Points

- **Recommendation of 15th FC:** It recommended the grant in aid of Rs. 60,750 crore for (FY 2020-21) the RLBs which is the highest ever allocation made by the Finance Commission in any single year.

- **Allocation:** It will be allocated in two parts, namely Basic Grant and Tied Grant in 50:50% mode. **Basic Grant:** These grants are untied and can be used by RLBs for location-specific needs, except for salary or other establishment expenditure.
Untied funds are utilised for the works of emergent nature which are **normally not covered under the schemes** decentralized at the district level.

**Tied Grants:** These are used for the **basic services** of:

- Sanitation and maintenance of **Open-Defecation Free** (ODF) status.
- Supply of drinking water, rain water harvesting and water recycling.
- The RLBs shall, as far as possible, earmark one half of these 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**.

**Distribution:** The **State Governments** will be distributing the grants to all the tiers of the **Panchayati Raj** - village, block and district including the traditional bodies of 5th and 6th **Schedule** areas based on the accepted recommendations of the latest **State Finance Commission (SFC)** and in conformity with the recommendations of the 15th **FC**.

**Assistance:** The **Ministry of Panchayati Raj** would support the states in effective utilization of the grants by providing **Web/IT enabled platforms for planning, monitoring, accounting / auditing** of the works and funds flow at the level of each of the RLBs.

**Significance:**

- **Fighting Covid 19:** It would help RLBs in providing employment. E.g. migrant laborers who have returned to their native places owing to Covid-19 pandemic situation.
- **Delivery of Basic Services:** Availability of this fund will boost RLBs effectiveness in delivery of basic services to the rural citizens.
- **Rural Infrastructure:** It will augment the rural infrastructure in a constructive way e.g construction of roads, supply of water etc.