4. United Grants for Rural Local Bodies- Polity

Centre Releases First Instalment of XV Finance Commission Grants for Rural Local Bodies in Sikkim
The Union Government has released the first instalment of the 15th Finance Commission's Untied Grants for Rural Local Bodies in Sikkim for 2025-26. These grants are part of the broader fiscal devolution framework where 40% are Untied (flexible use) and 60% are Tied (sanitation and water), aimed at strengthening local self-governance.

Introduction- Context of the News

The Union Government has released the first instalment of the XV Finance Commission (XV-FC) Untied Grants for Rural Local Bodies (RLBs) in Sikkim for the financial year 2025–26. This release is part of the constitutional mechanism to support local governance through fiscal transfers.

1. Understanding Government Grants

A grant is a financial transfer from a higher government authority to a lower one or an institution for a specified public purpose.

1. Nature of Payment- It is a non-repayable transfer payment, distinct from loans or guarantees.
2. Utilization- Funds must be utilized strictly for the intended objective serving the broader public interest.

Constitutional Classification of Grants

Feature	**Statutory Grants (Article 275)**	**Discretionary Grants (Article 282)**
Constitutional Basis	Article 275 of the Indian Constitution.	Article 282 of the Indian Constitution.
Source of Funds	Charged on the Consolidated Fund of India.	Allocated from the Union or State budgets.
Purpose	Provided to specific states in need of financial assistance. Includes grants for Scheduled Tribes welfare and Scheduled Areas administration.	Provided for any public purpose, even if the purpose is outside the legislative competence of the Parliament or State Legislature.
Nature	Mandatory if recommended by the Finance Commission.	Non-mandatory; depends on the discretion of the government.

Classification Based on Usage Flexibility

Tied Grants

a. These funds are earmarked for a specific sector or purpose.
b. The recipient authority is legally bound to use the funds strictly for the prescribed objective (e.g., sanitation, water supply).

Untied Grants

a. These funds are not linked to any specific project or sector.
b. They allow recipient governments (like Panchayats) the flexibility to prioritize spending based on local needs and location-specific requirements.

2. The Finance Commission (Constitutional Framework)

The Finance Commission is a pivotal Constitutional Body designed to address fiscal imbalances between the Centre and States.

Constitution- Established by the President of India under Article 280.
Frequency- Constituted every five years or earlier if deemed necessary.
Legal Backing- Its operations and powers are governed by the Finance Commission (Miscellaneous Provisions) Act, 1951.
Composition

a. Consists of a Chairman and 4 other members.
b. Appointed by the President.
c. Members are eligible for re-appointment.

3. The State Finance Commission (SFC)

To ensure fiscal federalism reaches the grassroots, the Constitution mandates Finance Commissions at the state level.

Origin- Established under the 73rd and 74th Constitutional Amendment Acts (1992).

Objective- To strengthen local self-governance by providing financial stability to Panchayati Raj Institutions (PRIs) and Municipalities.

Constitutional Articles

a. Article 243-I- Mandates the constitution of an SFC for Panchayats.
b. Article 243-Y- Mandates the constitution of an SFC for Municipalities.

4. The 15th Finance Commission (XV-FC)

The 15th FC has laid down the roadmap for fiscal distribution for the current period.

Constitution- Formed in November 2017.

Leadership- Chaired by Shri N. K. Singh.

Award Period- Covers the five years from 2021–22 to 2025–26.

A. Vertical Devolution

Share of States- Recommended that 41% of the divisible pool of Union taxes be devolved to the States. *(Note- This is a 1% adjustment from the 14th FC's 42%, accounting for the status change of Jammu & Kashmir into Union Territories).*

B. Horizontal Devolution Criteria

This determines how the 41% share is distributed *among* the different states.

Criteria	**Weightage (%)**	**Rationale**
Income Distance	45%	Supports states with lower per capita income compared to the state with the highest income.
Population (2011 Census)	15%	Uses recent data to reflect current needs.
Area	15%	Accounts for the cost of providing services in larger states.
Demographic Performance	12.5%	Rewards states that have successfully controlled population growth (lower fertility rates).
Forest and Ecology	10%	Compensates states for maintaining forest cover (ecological services).
Tax and Fiscal Efforts	2.5%	Incentivizes states with better tax collection efficiency.

C. Grants to Rural Local Bodies (RLBs)

The Commission introduced a distinct split in grants to ensure basic amenities are funded while maintaining local autonomy.

Tied Grants (60%)- Must be used for National Priorities.

Focus Areas- Drinking water supply, sanitation, rainwater harvesting, water recycling, and maintenance of Open Defecation Free (ODF) status.

Untied Grants (40%) - Flexible funds designed for location-specific needs. Released based on the recommendations of the Ministry of Panchayati Raj.

Context- The release mentioned in the news for Sikkim falls under this category.

D. Other Recommended Grants

Performance-Based Sectoral Grants- Targeted funding to improve specific sectors including

1. Health and Education.
2. Agriculture.
3. PMGSY Roads (Rural Roads).
4. Judiciary and Statistics.
5. Aspirational Districts and Blocks.

Goal- To reinforce local governance and enhance accountability in public spending.

Source- https-//www.pib.gov.in/PressReleasePage.aspx?PRID=2214930&reg=3&lang=1