

# Finance Commission and Fiscal Decentralisation - Empowering Rural Local Bodies

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## Finance Commission and Fiscal Decentralisation Latest News

- With the commencement of the Sixteenth Finance Commission (2026–31) award period from April 1, there is renewed focus on **fiscal decentralisation** and the growing financial empowerment of Rural Local Bodies (RLBs).
- Trends from previous Finance Commissions indicate a steady increase in both allocation and utilisation of funds for Panchayati Raj Institutions (PRIs).

## Evolution of Grants to Rural Local Bodies

- **Historical trajectory:**
  - Grants to RLBs began from the 10th Finance Commission, marking institutional support for grassroots governance.

- Fund release efficiency has steadily improved – 13th Finance Commission (90.5%), 14th Finance Commission (91%).
- **Key highlights of the 15th Finance Commission (2020-26):**
  - **Total recommended grants:** ₹2,97,555 crore.
  - **Total released:** ₹2,82,632 crore (with highest ever fund release efficiency – 94.94%).
  - **Peak release rate:** With release of grant peaking at a historic high of 94.98%.
  - **Top-performing states** (100% utilisation): Assam, Kerala, Mizoram, Tripura, Uttar Pradesh.
- **Significance of improved fund utilisation:** Reflects stronger cooperative federalism, enhances institutional capacity of PRIs under Article 243G, enables need-based local development, and improves delivery of essential civic services in rural areas.
  - **Article 243G (powers and responsibilities):** Panchayats are empowered to prepare plans for economic development and social justice. They function in matters (29) listed in the Eleventh Schedule.

## Allocation Framework of the 16th Finance Commission (2026-31)

- **Total grants and composition:**
  - The 16th Finance Commission has recommended a grant of **Rs 4.35 lakh crore** to rural local bodies for its award period (2026-27 to 2030-31).
  - Of this, Rs 3.48 crore will be the basic grant, Rs 43,524 crore the rural local body performance grant, and Rs 43,524 crore the state performance grant.
- **Distribution pattern:** Of the total grant, 90% will be given to gram panchayats, while block and district panchayats will each receive 10%.
- **Criteria for Inter-State distribution:** Among the states, the grant will be distributed based on each state's projected rural population for 2026 and its total area.
- **Year-wise allocation:** This shows that the states will receive Rs 55,909 crore as rural local body grants in 2026-27, Rs 71,300 crore in 2027-28, Rs 92,166 crore in 2028-29, Rs 102,303 crore in 2029-30, and Rs 113,558 crore in 2030-31.

## Key Implications of the 16th FC Framework for Governance

- **Strengthening decentralisation:** It reinforces the 73rd Constitutional Amendment, and empowers local self-governments as units of planning and implementation.
- **Improved service delivery:** It will result in better provisioning of drinking water, sanitation, rural infrastructure, and local welfare services.
- **Enhanced accountability:** For example, performance-based grants promote transparency, and outcome-oriented governance.

## Challenges

- **Capacity constraints:** For instance, many Panchayats lack technical expertise, and administrative capacity.
- **Uneven utilisation across States:** While some states achieve full utilisation, others lag due to weak institutional frameworks, and delayed implementation.

- **Dependence on grants:** Limited own-source revenue of Panchayats reduces fiscal autonomy.
- **Monitoring and accountability issues:** Risks of fund misallocation, and weak auditing mechanisms.

## Way Forward

- **Strengthening local capacity:** Training and capacity-building for Panchayat officials. Use of digital tools for governance.
- **Enhancing fiscal autonomy:** Promote local taxation powers. Encourage own revenue generation mechanisms.
- **Robust monitoring mechanisms:** Social audits and real-time tracking of fund utilisation. Strengthening institutions like State Finance Commissions.
- **Incentivising performance:** Expand and refine performance-linked grants. Reward efficient and transparent Panchayats.
- **Deepening cooperative federalism:** Strengthen Centre-State-Local coordination. Ensure timely and predictable fund flows.

## Conclusion

- The increasing allocation and high utilisation of funds for Rural Local Bodies signal a **decisive shift** towards deepening grassroots democracy and fiscal decentralisation in India.
- The 16th Finance Commission builds on this trajectory with an ambitious outlay, but its success will hinge on **strengthening institutional capacity**, ensuring accountability, and enabling Panchayats to emerge as truly self-reliant units of governance.

**Source: IE**

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