DEVELOPMENT ADVOCATE PAKISTAN

Volume 2, Issue 2
June 2015

7th National Finance Commission Award

DEVELOPMENT ADVOCATE
PAKISTAN

UNDP
Pakistan

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Development Advocate Pakistan provides a platform for the exchange of ideas on key development issues and challenges in Pakistan. Focusing on a specific development theme in each edition, this quarterly publication fosters public discourse and presents varying perspectives from civil society, academia, government and development partners. The publication makes an explicit effort to include the voices of women and youth in the ongoing discourse. A combination of analysis and public opinion articles promote and inform debate on development ideas while presenting up-to-date information.

DEVELOPMENT ADVOCATE PAKISTAN

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ISBN: 978-969-8736-11-8

June 2015

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Pakistan Gold Coins

Pakistan only issued its own coins for the first time in 1976, and its gold coins are commemorative pieces.

Editorial

In 2015, the 7th National Finance Commission Award (NFCA) will conclude its five year term. Deliberations on the 8th NFCA have already begun. As we transition to the new NFCA, it is important to take stock of the achievements and failures of the current award, and its impact on the future of development policy and Pakistan's efforts to achieve the Sustainable Development Goals.

The 7th NFCA was unprecedented in the history of Pakistan. First, it generated an unparalleled political consensus on the NFC process. The political process which underpinned it was participatory and inclusive, with a broad buy-in characteristic of a truly democratic development process. Second, it introduced much needed structural changes to how funding was distributed between provinces. For the first time, the criterion for distribution was not based on population alone but on multiple indicators including poverty.

Resource distribution is widely used as an instrument of fiscal equalization to address socio-economic inequalities. For example, the Indian Finance Commission (FC) has been constituted 14 times since independence, compared to four conclusive NFCAs in Pakistan. The regularity of awards by the Indian FC is largely thanks to being delinked from population. In the spirit of fiscal equalization, the FC awards assign significant weighting to deprivation or “backwardness” measured through poverty, geographical remoteness, per capita income, etc. Other countries, such as Germany and Canada, also use multiple criteria successfully. The introduction of multiple criteria in Pakistan's 7th NFCA was thus welcome.

Some critics believe the use of the 'backwardness' or poverty indicator for the NFCA creates perverse incentives for provinces – to increase their share, provinces will want to remain poor or at least appear poor – and propose replacing it with 'poverty reduction'. However, we believe the issue is not the criterion used, but the need to develop a proper monitoring and evaluation system to assess the local impacts of development expenditure.

The 7th NFCA was expected to increase federal transfers by 24 percent from the base year of 2009–10. While actual federal transfers increased by 22 percent, due to revenue shortfall provincial development expenditure increased by only 13.6 percent against a 37 percent projection. The provincial current expenditure, on the other hand, increased by 16.4 percent against a projected 14 percent. This suggests that increased funds did not proportionally convert into development expenditure. Even poverty reduction expenditures as a percentage of GDP have remained unchanged at 7.6 percent. While it is encouraging that education and health are top priorities at both provincial and federal levels, other sectors (including environment, agriculture, and climate change) are now much lower priorities for the provinces in the post 7th NFCA era.

The impact of the 7th NFC has also been weak. For example, Punjab has shown only a marginal increase in the proportion of primary school aged children enrolled in an appropriate level of education, the Net Primary Enrolment (NPE), from 62 percent in 2008–09 to 64 percent in 2013–14, whilst Khyber-Pakhtunkhwa (KP) has risen from 52 percent to 54 percent. In Sindh and Balochistan the NPE has actually declined, from 54 percent to 48 percent and 44 percent to 39 percent respectively. These insignificant changes point towards a critical issue: increased resources are simply not converting into enhanced social sector outcomes.

Reasons for this include weak public administration capacity to spend adequately and, importantly, the dormant status of the Provincial Finance Commission Awards (PFCA). The share of local governments is very low – around 24 percent for Punjab, 6 percent for Sindh and 4.6 percent for KP. The lack of elected local governments for almost 10 years, has virtually stopped the process of decentralization.

Moving forward, the 8th NFCA must build on the foundation laid down by the 7th NFCA and encourage provinces to establish well-functioning PFCAs. The multiple indicator formula for horizontal distribution of resources must be retained, with poverty/backwardness remaining a key criterion. Indeed, the NFC process should consider integrating regular reporting of the Multi-dimensional Poverty Index and Human Development Index developed by the Government of Pakistan with support from UNDP. This will not only provide a measure to assess the impact of increased expenditure locally but will also establish baselines for subsequent FCAs.

Recognizing that this may need constitutional amendment, the NFC process should also integrate the three administrative regions – Azad Jammu and Kashmir, Gilgit-Baltistan and the Federally Administered Tribal Areas (FATA) – but not at the cost of provincial shares. Given the special needs of Temporary Displaced People, FATA particularly needs urgent attention. The continuation of the NFC process will strengthen Pakistan and enhance the functioning of the many layers of government whose productive participation is crucial for development and inclusive growth.

The NFC Awards: Past, Present and the Future

Intergovernmental transfers are necessary to ensure that sufficient resources exist at each level of government to finance its service responsibilities. In Pakistan, the federal government spends almost 68 percent and its revenue generation is almost 90 percent. The provincial governments incur the remaining 32 percent of expenditure but their share in revenue generation is only 10 percent. There exists a clear vertical imbalance which the National Finance Commissions (NFCs) aim to reduce. They also seek to reduce the horizontal imbalance between the provinces. These transfers help reduce intergovernmental differences in service delivery. Just as the provinces have more subjects than they can raise revenue for from within their jurisdiction, the subjects devolved to the district governments also have expenditure requirements far in excess of their own resources. The provincial finance commissions (PFCs) have been set up to deal with these imbalances, though their functioning remains dormant. These issues have gained prominence in the context of democratic continuity since 2008. The continuation of this process will not only strengthen the federation but also allow different levels of government to function independently. The setting up of the 8th NFC under Article 160 (1) of the Constitution[1] on April 24, 2015 should be viewed in this context.

Overview of NFC Awards

Number	Name	Status
First	NFC Award 1974	Conclusive
Second	NFC Award 1979	Inconclusive
Third	NFC Award 1985	Inconclusive
Fourth	NFC Award 1991	Conclusive
Fifth	NFC Award 1995	Inconclusive
Sixth	NFC Award 1997	Conclusive
Presidential Order	Distribution Order 2006	-
Seventh	NFC Award 2010	Conclusive

Source: Dr. Kaisar Bengali, 'A step towards fiscal autonomy', Development Advocate Pakistan, Volume 2, Issue 1

The Past

The NFCs 1974, 1990, 1995 and 2006[2] made their recommendations, while the NFCs constituted in 1980, 1985 and 2000 failed to do so[3]. The 7th NFC which was set up on 21st July 2005 and reconstituted on 24th July, 2009, made path-breaking recommendations announced in 2010. The implementation of this Award was monitored as per Article 160 (3B) inserted under the 18th Amendment.[4]

Independence and the aftermath

Before and during the time of independence in 1947, intergovernmental transfers were governed by the Government of India Act, 1935 under the Niemeyer Award. Sales tax on goods and services was a provincial subject. The divisible pool consisted of income tax only, 50 percent of which went to the provinces. After independence, the same formula was continued with some annual grants for Khyber Pakhtunkhwa and Sindh. In 1952, the new Raisman Award was implemented, giving the federal government 50 percent ad hoc share of sales tax to deal with the financial crisis arising from the partition. The remainder was distributed between East Bengal (45 percent) and Punjab, Sindh, NWFP and Balochistan (55 percent).

In 1955, Punjab, Sindh, NWFP and Balochistan were declared one province called West Pakistan and East Bengal became East Pakistan. This arrangement continued till 1970. During this period, two awards were announced in 1961 and 1964. Under the 1961 Award, the share of East Pakistan was 54 percent and that of West Pakistan was 46 percent in the divisible pool. The divisible pool consisted of 70 percent of sales tax and other taxes. The remaining 30 percent of sales taxes was distributed between the provinces on the basis of their contribution. The 1964 NFC was made under Article 144 of the 1962 Constitution. The divisible pool consisted of income tax, 70 percent of sales tax, excise duty and export duty. The East Pakistan-West Pakistan shares and distribution of 30 percent of the sales tax remained unchanged. In 1970, West Pakistan was divided again into four provinces and West Pakistan's share was distributed among provinces on the basis of population.

The 1973 constitution

In 1974, the first NFC was constituted under the 1973 constitution. Chart 1 presents the salient features of the various NFC awards after 1973 and Table 1 gives the distribution between the provinces. The divisible pool consisted of export duty on cotton and taxes on sales and income. The provincial share was fixed at 80 percent and population was the basis for horizontal distribution. In 1990, the pool was enlarged by including excise duty on tobacco and tobacco manufacturers and sugar. In addition, the net proceeds of development surcharge on natural gas and royalty on crude oil were made as straight transfers to the provinces. Net profits from hydro-electric stations were to be paid by WAPDA under the guarantee of the federal government. In 1996, all FBR taxes except excise duty on natural gas and income tax paid out of the Federal Consolidated Fund were included in the pool. The provincial share was fixed at 37.5 percent. There was no other change in the formula for horizontal distribution.

The 6th NFC could not finalize the award due to divergent views on the basic issues. The intergovernmental revenue sharing was executed through a presidential order, 'Distribution of Revenues and Grants-in-Aid Order 2006'. The provincial share was increased from 37.5 percent to 41.5 in 2006-07 and to 46.25 by 2010-11. All provinces were made eligible for Grants-in-Aid, fixed at Rs. 27.75 billion for 2006-07 and increasing annually in line with the growth in the pool. An amount equal to 1/6th of general sales tax (GST) was distributed among provinces; 50 percent on the basis of population and 50 percent in proportion to the collection of audited octroi and zilla tax for 1998-99.

The vertical distribution and the composition of the divisible pool have been changing with every award, but the criteria for horizontal distribution remained the single factor of population until 2010. There were slight variations in shares whenever the population distribution altered due to census.

Chart 1: Salient Features of Various NFCs

Award Year	Divisible Pool	Vertical Distribution	Horizontal Distribution Criteria	Grants and Aid Criteria	Straight Transfers
1974	• Taxes on Income • Taxes on Goods sales and Purchase • Export Duties on Cotton	Provincial Share 80 percent Federal Share 20 percent	Population	• KP 100 million • Balochistan 50 million	
1990	• Similar as 1975 + • FED on Tobacco and tobacco manufactures and sugar	Provincial Share 80 percent Federal Share 20 percent	Population	• Punjab one billion for 3 years • Sindh 700 million for five years • KP 200 million for three years • Balochistan 100 million for three years	• Share in total Crude oil royalties on the basis of a share in crude oil production • Share in Natural Gas surcharges
1996	• Taxes on Income • Wealth Tax • Capital Value Tax • Taxes on Sale and Purchase • Export Duties on Cotton • Custom Duties • FED excluding FED on Gas • Any other tax	Provincial Share 37.5 percent Federal Share 62.5 percent	Population	• KP 3.31 billion for five years • Balochistan 4.08 billion for five years • Additional grant to each province on achieving a growth of 14.2 percent in provincial receipts[a]	• Share in total Crude oil royalties on the basis of a share in crude oil production • Share in Natural Gas surcharges
2006*	Similar as 1997 NFC and Sales Tax on Services (CE mode)	Provincial Share 41.5-46.25 percent[b]	Population	27.750 Billion[c] Grant will increase each year at same rate as growth in divisible pool	
2009	Similar as 1997 NFC[d]	Provincial Share 56 percent 2010-11 and 57.5 percent in 2011-12 onward	• Population • Poverty and Backwardness • Revenue collection and Generation • Inverse population density	0.66 percent in the share of each province in divisible pool	• Share in total Crude oil royalties on the basis of a share in crude oil production • Share in Natural Gas surcharges on the bases of average rate per MMBUT

*Distribution of Revenues and Grants-in-Aid Order 2006
a: Rs 500 million each to Punjab and Sindh and Rs 100 million each to KP and Balochistan.
b: 2006-07 41.5 percent, 2007-08 42.50 percent, 2008-09 43.75 percent, 2009-10 45.00 percent and 46.25 per cent..
c: The share of each province in grants is as follows: Punjab 11.0 percent, Sindh 21.0 per cent, KP 35 percent and Balochistan 33 per cent.
d: Sales tax on services given to provinces.
Source: Various Presidential orders, Ministry of Finance, Pakistan

The Present - 7th NFC Award

The 7th NFC award, for the first time, used multiple indicators for horizontal distribution. As indicated in Table 1, the share of Punjab in federal transfers declined from 57.36 percent to 51.74 percent whereas the share of all other provinces increased. Balochistan gained the maximum, as the formula gave weightage to area and backwardness.

Under the 7th NFC Award, which completes its five years in the fiscal year 2014-15, the provincial share in the divisible pool of taxes increased from 47.5 percent to 56 percent in the first year (2010-11) and 57.5 percent subsequently. The collection charge by the federal government was reduced to one percent of the total collection from five percent. One percent of the divisible pool was allotted to KP for war on terror. Balochistan was guaranteed allocations as projected in the award. The sales tax on services was recognized as a provincial tax.

Table 1: Horizontal Distribution of Federal Transfers (%)

NFC Award	Punjab	Sindh	KP	Balochistan
1974	60.25	22.50	13.39	3.86
1982	57.57	23.34	13.39	5.30
1990	57.97	23.34	13.39	5.30
1996	57.88	23.28	13.54	5.30
2006*	57.36	23.71	13.82	5.11
2009	51.74	24.55	14.62	9.09

*Distribution of Revenues and Grants-in-Aid Order 2006.
Source: Various Presidential orders, Ministry of Finance, Government of Pakistan

Table 2: Vertical Implications of the 7th NFC Award on Divisible Pool Transfers (%)

	Factors	FBR Tax Revenue	Divisible Pool	Federal Share	Provincial Share
As per 7th NFC Award	2010-11 RE	1,568	1,463	628	835
	2011-12 RE	1,937	1,835	772	1,063
	2012-13 RE	1,989	1,929	795	1,134
	2013-14 RE	2,262	2,207	929	1,278
	2014-15 RE	2,795	2,729	1,148	1,581
As per Distribution Order 2006	**2010-11 RE**	1,568	1,459	784	675
	2011-12 RE	1,937	1,821	979	842
	2012-13 RE	1,989	1,917	1,030	887
	2013-14 RE	2,262	2,189	1,177	1,013
	2014-15 RE	2,795	2,697	1,450	1,248
Impact of change in Design	2010-11 RE	0	4	-156	160
	2011-12 RE	0	14	-207	221
	2012-13 RE	0	12	-235	248
	2013-14 RE	0	18	-248	266
	2014-15 RE	0	32	-302	333
Impact of change in Design (%)	**2010-11 RE**	0	0.3	-19.9	23.7
	2011-12 RE	0	0.8	21.1	26.2
	2012-13 RE	0	0.6	-22.8	27.9
	2013-14 RE	0	0.8	-21.1	26.3
	2014-15 RE	0	1.2	-20.8	26.7

Source: Policy paper No. 25, Social Policy and Development Centre

Table 3: Horizontal Implications of the 7th NFC Award on Divisible Pool Transfers (Rs. in Billion)

	Factors	Punjab	Sindh	KP	Balochistan
Divisible Pool Transfers as per 7 th NFC Award	2010-11 RE	420	199	133	83
	2011-12 RE	541	257	171	95
	2012-13 RE	568	270	180	116
	2013-14 RE	650	308	206	123
	2014-15 RE	804	381	254	141
Divisible Pool Transfers as per Distribution Order 2006	**2010-11 RE**	380	170	90	35
	2011-12 RE	482	201	116	43
	2012-13 RE	507	212	122	45
	2013-14 RE	579	242	139	52
	2014-15 RE	714	299	171	64
Impact of change in Design	2010-11 RE	39	29	44	48
	2011-12 RE	58	55	55	52
	2012-13 RE	61	57	58	71
	2013-14 RE	71	66	67	72
	2014-15 RE	90	83	83	77
Impact of change in Design (%)	**2010-11 RE**	10.3	16.9	48.6	139.9
	2011-12 RE	12.1	27.4	47.6	120.5
	2012-13 RE	12.0	27.1	47.6	156.8
	2013-14 RE	12.2	27.2	47.9	138.2
	2014-15 RE	12.6	27.6	48.5	121.4

Source: Policy paper No. 25, Social Policy and Development Centre

Note: Major analysis has been conducted by UNDP Consultants. Dr. Pervez Tahir (Freelance Political Economist based in Islamabad) and Mr. Wasim Saleem (PhD candidate at Pakistan Institute of Development Economics, Islamabad).

Pre and post 7th NFC revenue and expenditure analysis

As a result of the change in vertical distribution, a net amount of Rs. 1,236 billion was added to the provincial kitty in five years. The application of multiple criteria to this net amount shows that Punjab, Sindh, KP and Balochistan received, respectively, Rs. 319 billion, Rs. 290 billion, Rs. 307 billion and Rs. 320 billion. The net addition to the resources of Balochistan was greater than Punjab and that of KP was greater than Sindh.

In the four years analyzed in Table 4, the average annual growth rate of total revenues was 14.9 percent, which is higher compared to the growth in 2009-10, but the growth in tax revenues was lower in the same period. The provincial tax revenues have shown a growth of 36.5 percent in the last four years vis-a-vis the growth of 13.8 percent in the federal tax revenue. It is mainly explained by the devolution of the GST on Services to the provinces under the 7th NFC and the 18th amendment. The overall tax-to-GDP ratio of Pakistan is 11.8 percent which is 3.2 percent below the projected level of 15 percent. The 7th NFC created a disincentive for the federal government to mobilize additional resources, as 57 paisas (pennies) out of each extra rupee mobilized by the federal government goes to the provinces. A more important reason, however, is the slow growth of the economy.

Table 4: Pre and Post 7th NFC Revenue Analysis (Rs billion)

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15 B	Growth 2009-10* (%)	Growth 2010-11-2013-14** (%)
Total Revenue (A+B)	**2,097**	**2,271**	**2,579**	**2,997**	**3,651**	**4,382**	**13.3**	**14.9**
A. Tax Revenue	**1,473**	**1,699**	**2,053**	**2,199**	**2,565**	**3,424**	**22.3**	**14.9**
Federal	1,418	1,635	1,946	2,049	2,375	3,129	22.4	13.8
(i) Provincial	55	65	107	151	190	295	18.9	36.5
B. Nontax Revenue	**624**	**572**	**527**	**798**	**1,087**	**958**	**-3.4**	**14.9**
Federal	557	510	479	727	1,038	816	-1.1	16.9
(ii).Provincial	68	62	48	71	49	142	-19.0	-7.6
(iii)Federal Transfers to Provinces	634	999	1,090	1,215	1,406	1,720	20.5	22.1
(iv)Federal Loans and grants to Provinces	120	85	89	107	122	20.8	26.3	0.4
Provincial total revenue (i+ii+iii+iv)	**876**	**1,211**	**1,334**	**1,544**	**1,767**	**897**	**16.7**	**19.2**
Memo Item								
Tax - to- GDP Ratio	**10.0**	**9.4**	**9.9**	**9.6**	**10.1**	**11.8**		
Federal	9.7	9.1	9.4	8.9	9.3	10.8		
Provincial	0.4	0.4	0.5	0.7	0.7	1.0		
Non tax to GDP Ratio	4.3	3.2	2.6	3.5	4.3	3.3		
Federal	3.8	2.8	2.3	3.2	4.1	2.8		
Provincial	0.5	0.3	0.2	0.3	0.2	0.5		
Overall Revenue	**14.3**	**12.6**	**12.5**	**13.1**	**14.4**	**15.1**		
Tax- To- GDP Ratio Projections ***	**10.70**	**11.75**	**12.80**	**13.60**	**14.30**	**15.00**		
Federal	10.20	11.10	12.00	12.70	13.30	13.85		
Provincial	0.50	0.65	0.80	0.90	1.00	1.15		

*on the basis of 2008-09
**2014-15B not included to avoid distorted comparison
*** Projections at the time of 7th NFC award
Source: Ministry of Finance, Fiscal Operations, July-March 2015; Report of the National Finance Commission, 2009

The 7th NFC Award: Salient Features

The provinces' collective share from the divisible tax pool was raised from 48.75 percent to 56 percent in the first year of the award and 57.5 percent during the rest of its five year life.

The horizontal distribution of the resource among the provinces was based on multiple factors instead of population (though it was still assigned a heavy weight in the formula) alone: population (82 percent), poverty/backwardness (10.3 percent), revenue collection/generation (5 percent) and area (2.7 percent).

The federal government's collection charges were reduced from 5.2 percent to 1 percent.

Khyber Pakhtunkhwa was given arrears on the payment of hydel profits and Balochistan was given arrears of GDS.

The formula for Gas Development Surcharge (GDS) computation was revised and its net proceeds distributed among the (gas producing) provinces, and the rate of excise duty on gas was increased from Rupees 5.09mmbtu to Rupees 10mmbtu.

In view of the special needs of Balochistan, the award gave it a minimum of Rupees 83 billion (9.09 percent of the provincial share in the divisible pool) over the life of the award. In case the estimated share of the province was less than the minimum amount pledged, the shortfall was to be met by the federal government from its resources.

Discretionary grants-in-aid were abolished.

Recognizing the role of Khyber Pakhtunkhwa as a frontline in the war on terror, the province was given an additional resource of 1 percent of the net proceeds of the divisible pool to enlarge the size of divisible pool before its vertical distribution over the award's life.

Sindh got a grant of 0.66 percent of the provincial share to offset its losses owing to the merger of one-sixth of GST in the divisible pool.

The provincial general sales tax (GST) on services was transferred to the provinces (perhaps the biggest gain for the provinces apart from the increase in their collective share from the divisible pool), and they were given a choice to either collect the levy themselves or allow the federal government to collect it on their behalf.

By Nasir Jamal, Journalist and Chief Reporter, DAWN Newspaper

Table 5: Pre and Post 7th NFC* Expenditure Analysis

Year	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15 B	Growth 2009-10* (%)	Growth 2010-11 to 2013-14** (%)
Total Expenditure	**3,178**	**3,518**	**3,968**	**4,923**	**5,377**	**6,262**	**22**	**14**
Federal Expenditure	**2,273**	**2,442**	**2,612**	**3,441**	**3,759**	**4,302**	**23**	**13**
Current	1,841	2,142	2,209	2,625	2,885	3,463	20	12
Development	432	300	403	816	874	839	40	19
Provincial Expenditure	**905**	**1,077**	**1,356**	**1,482**	**1,618**	**1,960**	**18**	**16**
Current	646	831	981	1,110	1,187	1,521	15	16
Development	258	246	375	372	431	439	28	14
Memo Item								
Federal Expenditure as % of Total Expenditure	**71.5**	**69.4**	**65.8**	**69.9**	**69.9**	**68.7**		
Federal Current Expenditure as % of GDP	12.6	11.9	10.7	11.5	11.4	11.9		
Provincial Current Expenditure as % of GDP	4.4	4.6	4.8	4.9	4.7	5.2		
Federal Development Expenditure as % of GDP	3.0	1.7	2.0	3.6	3.4	2.9		
Provincial Development Expenditure as % of GDP	1.8	1.4	1.8	1.6	1.7	1.5		
Total Expenditures as % of GDP	21.7	19.5	19.2	21.5	21.2	21.5		

* on the basis of 2008-09
**2014-15B not included to avoid distorted comparison
Source: Ministry of Finance, Fiscal Operations, July-March 2015; Report of the National Finance Commission, 2009; Provincial Annual Budget Statements

The 7th NFC along with the 18th amendment devolved 17 ministries to the provinces. Now almost all of health, education, water supply, environment, law and order, etc. are provincial subjects. More revenue with more responsibilities should indicate more expenditures at the provincial level. Table 5 presents the pre and post NFC expenditures. The share of the federal government in expenditure has decreased by almost three percentage points in the last 6 years. In 2009, the share was 71.5 percent whereas in 2014-15 it is 68.7. The provincial expenditures grew during 2010-11 to 2013-14 at an average of 15 percent per annum whereas federal expenditures grew at 13 percent per annum. The growth of development expenditures at the federal level is higher as compared to the provincial level. Total expenditure growth was less in the NFC period as compared to 2009 -10. The overall expenditure to GDP ratio was 21.53 percent. In the post NFC period, the higher growth in current expenditures as compared to development expenditures at the provincial level indicates

Table 6: Pre and Post NFC Utilization Rates of Provincial Development Expenditures*

	Budget (Rs in Billion)	Revised (Rs in Billion)	Utilization Rate** (%)
2008-09	306.6	314.5	102.6
2009-10	357.6	315.9	88.3
2010-11	442.6	322.0	72.7
2011-12	497.6	439.8	88.4
2012-13	614.5	433.6	70.6
2013-14	681.8	518.0	76.0
2014-15	750.9		
Average Dev. Exp 2008-09 to 2009-10	**332.1**	**315.2**	**94.9**
Average Dev. Exp 2010-11 to 2013-14	**559.1**	**428.3**	**76.6**

*Includes both revenue and capital account expenditures
**Revised expenditures as % of budgeted allocations
Source: Provincial White Papers

that a large portion of additional revenues went to current expenditures as opposed to development expenditures. In per capita terms as well, the revenue expenditure doubled (See Table 13).

Table 6 shows the year wise utilization rate of development expenditure in pre and post 7th NFC periods for the provinces as a whole. The result shows that during 2008-09 to 2009-10, the average utilization rate was almost 95 percent whereas in the post NFC period, the utilization rate was only 77 percent, which is 18 percent less than the pre NFC period. The utilization rate in the post NFC period as compared to pre NFC period for Punjab fell by 22.3 per cent, for Sindh by 22.8 percent and for Balochistan by 16.2 per cent. Only in the case of KP, the utilization increased marginally by 0.5 percent (See Table 14).

The expenditure revenue gap

Table 7 presents the expenditure revenue gap in pre and post NFC periods. The results reveal that the overall fiscal deficit has increased from 5.7 percent of GDP in 2009-10 to 6.5 percent in 2014-15. The major reason is the revenue shortfall at the federal level. The fiscal deficit at the federal level has increased from 4.8 percent in 2009-10 to 7.1 percent in 2014-15. Interestingly, the provinces show a budget surplus which helps in reducing the overall fiscal deficit. The budget surpluses at the provincial level indicate that the 7th NFC has increased the provincial revenue but the provinces have failed to use those additional revenues for the welfare of its people.

Table 7 : Pre and Post 7th NFC Fiscal Deficits

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15 B
Federal Expenditure as % of GDP	14.09	15.50	13.52	12.65	15.02	14.80	14.79
Provincial Expenditure as % of GDP	5.85	6.17	5.96	6.57	6.47	6.37	6.74
Federal Net Revenue as % of GDP*	9.3	9.1	6.3	6.5	6.8	7.9	7.7
Provincial Revenue as % of GDP	5.0	5.2	6.2	6.0	6.3	6.5	7.4
Memo item: Deficit as % of GDP							
Federal	-4.8	-6.4	-7.2	-6.2	-8.2	-6.9	-7.1
Provincial	-0.8	-1.0	0.3	-0.5	-0.2	0.1	0.7
Overall	-5.7	-7.4	-6.9	-6.7	-8.4	-6.8	-6.5

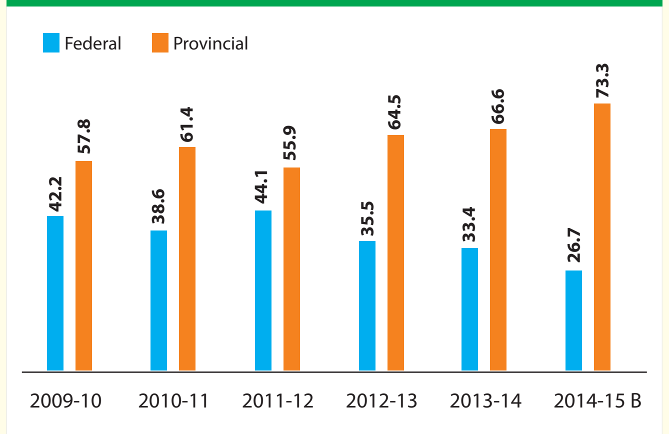
*Gross revenue minus provincial transfers
Source: Ministry of Finance, Fiscal Operations, July-March 2015; Report of the National Finance Commission, 2009; Provincial Annual Budget Statements.

Expenditure on poverty reduction

One of the primary tasks of each government is to provide basic services to the general public and reduce poverty. Chart 3 presents the share of federal and provincial governments in poverty reduction expenditures and the total as a percentage of GDP. In 2009-10, the ratio between federal and provincial governments was 42:58. In 2014-15 it stands at 27:73. This because the18th amendment devolved the provision of social services to the provinces.

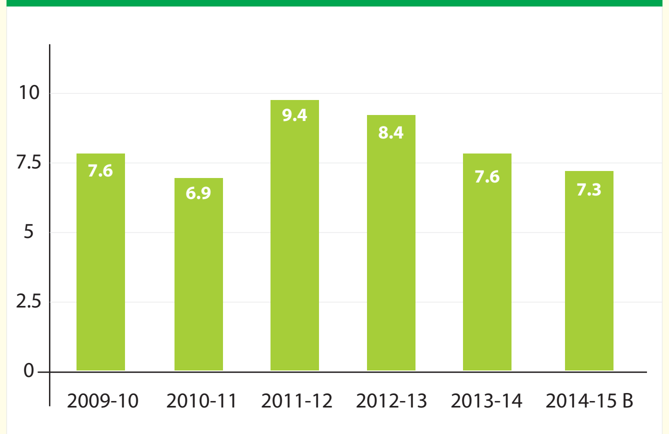
However, as the overall poverty reduction expenditures as a percentage of the GDP remain nearly unchanged, the impact of the NFC and devolution has been to shift the expenditure to the provinces (Chart 4).

Chart 3: % Share of Federal and Provincial Governments in Poverty Reduction Expenditure



Source: Ministry of Finance, PRSP Progress Reports; Federal and Provincial Annual Budget Statements

Chart 4: Poverty Reduction Expenditures as Percentage of GDP



Source: Ministry of Finance, PRSP Progress Reports; Federal and Provincial Annual Budget Statements

Impact on priorities

Chart 5 presents the pre and post 7th NFC federal and provincial priorities in basic services. The share of education expenditures is highest among all social services for federal as well as provincial governments.

Post NFC, the expenditures on health increased and it stands second in the priority list compared to 5th during pre NFC. There are four social services out of 13 at the federal level, for which the expenditures have decreased post the NFC and six services for which there is an improvement. The expenditures have not changed for three services. At the provincial level, expenditures have increased only for two services in the last four years, declined for five and remained unchanged for six.

Chart 5: Pre and Post 7th NFC Federal and Provincial Expenditure Ranking* for Basic Services

Description	Federal Priorities		Provincial Priorities		Overall Priorities	
	Pre NFC	Post NFC	Pre NFC	Post NFC	Pre NFC	Post NFC
	3	5	4	5	4	5
Environment/Water Supply & Sanitation	11	7	6	7	6	7
Education	2	1	1	1	1	1
Health	4	3	5	3	5	3
Population Planning	7	11	11	11	11	11
Social Security & Welfare	9	9	8	9	8	9
Natural Calamities & Other Disasters	8	6	9	6	9	6
Agriculture	5	4	3	4	3	4
Land Reclamation	12	12	12	12	12	12
Rural Development	10	8	7	8	7	8
Law and Order	1	2	2	2	2	2
Low Cost Housing	13	13	13	13	13	13
Justice Administration	6	10	10	10	10	10

*Ranking on the basis of expenditures in 2009-10 and aggregate expenditures during 2010-11 to 2013-14. The numbers shows the expenditure share of a particular service in total expenditures, both current and development. Red indicates decline, green shows improvement and white shows no change.
Source: Ministry of Finance, PRSP Secretariat.

Public Spending on Social Services (as a percentage of GDP)

	Average Pre-NFC	2010-11	2011-12	2012-13	2013-14	Average Post-NFC
Federal Government	**0.51**	**0.46**	**0.33**	**0.37**	**0.48**	**0.41**
Provincial Government	**1.99**	**2.07**	**2.40**	**2.58**	**2.56**	**2.40**
Punjab	1.06	1.11	1.22	1.24	1.24	1.21
Sindh	0.49	0.55	0.52	0.64	0.62	0.58
Khyber Pakhtunkhwa	0.32	0.23	0.46	0.49	0.47	0.41
Baloshistan	0.12	0.18	0.20	0.20	0.22	0.20
Total	**2.50**	**2.53**	**2.73**	**2.95**	**3.04**	**2.81**

Source: Policy paper No. 25, Social Policy and Development Centre

Social sector outcomes

Table 8 shows the performance of key social indicators in pre and post NFC periods. In education, Punjab and KP show marginal improvement in net primary enrolment rate, while Sindh and Balochistan experienced significant deterioration. All provinces, except Sindh, registered progress in literacy rate. Although still low, the increased expenditure has not made much difference to the education sector. In the health sector, Punjab and KP show a slight improvement in immunization whereas Sindh and Balochistan show deterioration. Infant mortality rate declined as a whole, both for males and females, but it remains higher for females than males. Contraceptive prevalence rate improved in all provinces, with Balochistan showing the highest improvement. Access to piped water declined significantly while sanitation performed relatively better.

Table 8. Social Sector Outcomes (%)

Indicators/ Province	Pre-NFC 2008-09	Post-NFC 2013-14
NET PRIMARY ENROLMENT RATE (CLASS1-5 & age 5-9)		
Punjab	62	64
Sindh	54	48
Khyber Pakhtunkhwa	52	54
Balochistan	44	39
LITERACY RATE (10 YEARS AND OLDER)		
Punjab	56	61
Sindh	57	56
Khyber Pakhtunkhwa	45	53
Balochistan	39	43
FULL IMMUNISATION (12-23 MONTHS BASED ON RECALL AND RECORD)		
Punjab	85	86
Sindh	69	61
Khyber Pakhtunkhwa	73	75
Balochistan	43	41

Indicators/ Province	Pre-NFC 2008-09	Post-NFC 2013-14
INFANT MORTALITY (PER 1,000 LIVE BIRTHS)		
Pakistan	75*	70
Male	65*	61
Female	69*	65
CONTRACEPTIVE PREVALENCE RATE (WOMEN AGED 15-49 YEARS)		
Punjab	32*	38
Sindh	21*	25
Khyber Pakhtunkhwa	23*	28
Balochistan	6*	13
TYPE OF TOILET – Flush		
Pakistan	63	74
Urban	95	98
Rural	47	61
PIPED WATER		
Pakistan	35	26
Urban	62	52
Rural	21	11

*2007-08

Source: Pakistan Bureau of Statistics, Pakistan Social and Living Standard Measurement Surveys

For a comparison of more indicators, please refer to table 2 on 'social sector indicators' on page # 19

Public Spending on Education (as a percentage of GDP)

	Average Pre-NFC	2010-11	2011-12	2012-13	2013-14	Average Post-NFC
Federal Government	0.36	0.33	0.28	0.31	0.34	0.32
Provincial Government	1.37	1.45	1.63	1.78	1.77	1.66
Punjab	0.73	0.79	0.84	0.86	0.86	0.84
Sindh	0.33	0.40	0.33	0.43	0.42	0.39
Khyber Pakhtunkhwa	0.24	0.15	0.33	0.37	0.35	0.30
Baloshistan	0.07	0.11	0.12	0.13	0.15	0.13
Total	1.74	1.78	1.91	2.09	2.12	1.98

Source: Policy paper No. 25, Social Policy and Development Centre

Public Spending on Health (as a percentage of GDP)

	Average Pre-NFC	2010-11	2011-12	2012-13	2013-14	Average Post-NFC
Federal Government	0.14	0.13	0.05	0.05	0.14	0.09
Provincial Government	0.45	0.46	0.60	0.65	0.66	0.59
Punjab	0.24	0.23	0.30	0.33	0.33	0.30
Sindh	0.12	0.13	0.15	0.19	0.18	0.16
Khyber Pakhtunkhwa	0.07	0.06	0.10	0.09	0.10	0.09
Baloshistan	0.02	0.04	0.05	0.05	0.05	0.05
Total	0.60	0.59	0.65	0.70	0.80	0.68

Source: Policy paper No. 25, Social Policy and Development Centre

Fiscal Federalism in Other Countries

Pakistan has had a chequered history of fiscal federalism. It was anchored in population as the sole criteria of horizontal distribution. Other countries have experimented with multiple criteria achieving good results. As Pakistan is only beginning to enter the field, it is useful to learn from elsewhere. India has been chosen for similar initial conditions and Germany as an example of a successful federation.

Indian finance commissions

Like Pakistan, the Indian Finance Commission (FC) is constituted every five years. Unlike Pakistan, there has never been a break, with the 14th FC appointed in 2013 for the period 2015-16 to 2020-21. As in Pakistan, the share in the net proceeds of taxes of the Union is the main source of the revenue of the states. The divisible pool consists of all taxes, except surcharges and cesses levied for specific purposes. The Fourteenth FC has radically increased the share of the states from 32 percent to 42 percent. Table 9 presents the weights of different indicators used in the last two FCs for horizontal distribution. The regularity of awards has been made possible by delinking horizontal distribution from current population, which in India also has political connotations. The 1971 population is the benchmark for horizontal distribution. The fourteenth FC gave 10 percent weight to the population of 2011 for the first time. It also introduced forest area as an indicator. The highest weightage continues to be fiscal capacity/income distance.

Table 9 : Horizontal Distribution Indicators in India

Indicators	Weights in Thirteenth FC	Weights in Fourteenth FC
Population (1971)	25	17.5
Population (2011)	0	10
Fiscal capacity/Income distance	47.5	50
Area	10	15
Forest Cover	0	7.5
Fiscal discipline	17.5	0

Source: Economic Survey 2013-14, Government of India

Tax capacity of the states is estimated on the basis of gross state domestic product per capita. Inter-state equity is sought to be achieved by separating special category states from general category states on the basis of a five-fold criteria: (i) hilly and difficult terrain (ii) low population density or sizeable share of tribal population (iii) strategic location along borders (iv) economic and infrastructural backwardness and (v) non-viable nature of state finances. Horizontal imbalances are also reduced by needs-based grants-in-aid.

Germany: Equal claim to current revenue

Like Pakistan's federal-provincial tiers, Germany has federation-länder tiers. Articles 104a to 115 discuss the constitutional provisions for financial relations between the federation and Länder. Article 106 recognizes that "the federation and länder have an equal claim to current revenue to cover their necessary expenditures". The tax base for each tier of the government is given. However, federation and Länder jointly collect value added tax, personal Income tax, payroll tax and corporate income tax, which together yield 72 percent of the total tax revenue of Germany. The federation and lender receive 42.5 percent of income tax and 50 percent of corporate tax, while the value added tax is apportioned by federal law, keeping in view the changing circumstances. Unlike Pakistan, which applies the vertical distribution criteria to the divisible pool as a whole, Germany applies it to each tax separately. The criteria used for vertical distribution also varies from tax to tax, as may be seen in Table 10. These transfers aim to reduce disparity between länders by balancing fiscal capacity and fiscal need. Fiscal capacity is defined by average tax revenue and fiscal need is assessed on the basis of the size and density of population. The länder with fiscal capacity greater than fiscal need has to transfer resources to länder where need exceeds capacity. Federal grants are in addition.

Table 10: Germany: Horizontal Distribution Criteria

Tax	Criteria
Income Tax	Residency principle
Corporate tax	Residency* principle
VAT	75 percent distributed on the basis of population and remaining 25 percent distributed to those Länder where the per capita tax revenue is below average

*Location of production, not headquarter.

Source: Arthur B. Gunlicks, Issues in German Politics: The Länder and German Federalism. Manchester University Press, 2003.

Provincial Finance Commissions

Just as the provinces in Pakistan have more subjects than they can raise revenues from within their jurisdictions, the subjects devolved to the district governments also have expenditure requirements far in excess of their own revenues. The Provincial Local Government Ordinances (LGOs) 2001 devolved substantial administrative and financial authority for basic social services. Provincial Finance Commissions (PFCs) were set up to deal with varying levels of development by making formula based transfers every three years. The PFCs were ahead of the NFC in using multiple criteria, as indicated in Table 11.

Table 11: Weights Used in Horizontal Distribution in the Provincial Finance Awards

Indicators	Punjab	Sindh	KP	Balochistan
	Weights			
Population	67%	50%	50%	50%
Backwardness	33%	17.50%	25%	
Tax effort/collection		7.50%		
Performance		5%		
Area				50%
Development incentive/ infrastructure deficiency			25%	
Transitional assistance (grants)		20%		

Source: Shahid Kardar, "Local Government Finance in Pakistan Post 2001," The Lahore Journal of Economics, Special Edition, 2006

The recent local government legislation in all provinces use nearly the same indicators as principles of provincial transfers to local governments. In the KP law issued in 2013, which is considered to be better than the other provinces, fiscal need, fiscal capacity, fiscal effort and fiscal performance, poverty, population and infrastructure lag have all been mentioned. The quantum of vertical transfers and the actual weights allowed to different indicators for horizontal distribution will be known once the local governments are in place and the PFCs meet. At present, the share of local governments in provincial expenditures is far from satisfactory. As Table 12 shows, there is low resource availability at the local government level particularly in Sindh and KP. No information is available for Balochistan, a province which took the lead in holding local elections and installed local governments. Elections have now been held in KP and political leadership is promising the transfer of 30 percent of development funds to the local level. In the budget of 2014-15, it was less than two percent. In the larger provinces of Punjab and Sindh, elections are scheduled to be held in September 2015.

Table 12: Transfers to Local Government as % of Total Provincial Expenditures

	2013-14 B	2013-14 R	2014-15 B
Punjab	22.3	23.7	22.1
Sindh	5.7	6.3	6.2
Khyber Pakhtunkhwa	4.6	4.6	4.6
Balochistan	-	-	-

Source: Provincial Annual Budget Statements 2014-15

Way Forward

The 7th NFC award has substantially increased provincial revenues. Smaller provinces gained at the expense of the federal government and Punjab. The former experienced major reduction in its share in the vertical distribution and the latter found its share reduced as multiple criteria replaced the sole criterion of population.

The federal government, which collects the taxes, has failed to achieve the projected increase in the tax to GDP ratio to 15 percent, while the expenditures on debt servicing and defence have been rising. As the devolution of subjects to provinces under the 18th amendment succeeded the 7th NFC award, the wrong sequencing made provinces demand additional resources, phasing of devolution and transitional arrangements for vertical health and population programmes and the Higher Education Commission. Even under 7th NFC award, one percent of the divisible pool before distribution was allocated to KP for war on terror.

Since the 7th NFC award, a significant portion of the overall fiscal deficit has been financed by forcing the provinces to maintain surplus budgets. Donors have also pointed out the generosity of the 7th NFC towards the provinces. Article 160 (3A) of the constitution bars any reduction in the share of the provinces. In the terms of reference of the 8th NFC, therefore, the federal government seems to be looking at other ways of achieving the same objectives. For the first time, it wants the NFC to consider the assessment and allocation of resources to meet expenditures related to Azad Kashmir, Gilgit-Baltistan and FATA, regions which are not provinces but have claims on resources. The federal government also wants the provinces to share the burden of managing natural disasters and controlling terrorism. It also seeks discussion on the exercise of the borrowing powers conferred by the constitution on the provinces. The federal government's position was summed up by the finance minister at the first meeting of the 9th NFC as he "underlined the need to take into account significant expenditures the country is expending on fighting war on terror" and "the need for improving overall resource-base, so that these rising expenditures can be met."[5]

With a reduced share, the largest province, Punjab, is pressing for a higher share in the divisible pool. According to the technical representative of Punjab at the NFC, the province had sacrificed enough in the 7th NFC and would not support any change in the inter-provincial distribution formula.[6] The per capita transfers to Balochistan, KP and Sindh are 2.2,1.3 and 1.3 times higher than Punjab. Resultantly, the per capita development expenditure in Balochistan, KP and Sindh is 2.5, 2.7 and 1.7 times higher than Punjab. These provinces do not, however, feel satisfied with the higher transfers. Balochistan, the greatest beneficiary of the 7th NFC award, wants an increase in the vertical share of the provinces as well as an increase in its share in the horizontal distribution. It proposed the reduction of the weight given to population from the present 80 percent to 50 percent. Its chief minister says that the total development budget of the province is Rs 45 billion, while education alone requires Rs. 55 billion.[7] The KP government complains that the bulk of the federal PSDP is spent in the larger provinces of Punjab and Sindh. The province wants an increase in its specific allocation for the war on terror, a massive reduction of the federal share in the divisible pool and inclusion of customs duties in it, besides the transfer of the federal excise duty on oil to the province concerned as per Article 161 (b).[8] Sindh has demanded the increase of provincial share to 60 percent, mainly because it faces a terrorist threat similar to the KP province.[9]

These divergent positions have emerged over a period of time. Weary of opening another front, the federal government first delayed the setting up of the 8th NFC and then hurriedly called the first meeting just before the budget, only to set up subgroups to report on resource mobilization at federal and provincial levels, devolved versus integrated tax collection, allocative efficiency and expenditure analysis, and rationalization of subsidies and grants. This could not but lead to the continuation of the present dispensation by invoking Article 160 (6) at least for the fiscal year 2015-16. The federal budget announced for 2015-16 has done precisely that (Table 15). Given the dire macroeconomic straits in which the federal government finds itself, it will not be surprising that an order similar to the Presidential Order No.1 of 2006 is issued to cover the remaining years of the tenure of the present government. An indication was given in the Senate by a federal minister who claimed that the Constitution bound the federal government to set up an NFC every five years, which it had, but not to give the award.[10] This is correct. Article 160 (2), makes it "the duty of the National Finance Commission to make recommendations to the President." Until the NFC delivers, the business of the state has to go on, leaving grounds for the President to issue the relevant order under Article (4). It has been officially declared that the "present Award will remain operative till 9th NFC Award is implemented. As such, the shares of the provinces in the divisible pool have been worked out in accordance with the 7th NFC Award, 2009."[11] As usual, the budget for 2015-16 shows that revised transfers for 2014-15 were less than the budgeted and the budgeted allocations for 2015-16 are higher than the revised as ells the budget allocations for the previous year (Table 15). On their part, the provinces are unable to utilize fully even lower than the budgeted transfers. They need to invest in improving their absorptive capacity.

In so far as taxes are concerned, the fact of the matter is that the federal government has nothing to give and the provinces know it. The maximalist positions taken by both sides will only cause a stalemate, facilitating the maintenance of the status quo, as the Constitution stands in the way of a rollback. For greater tax revenue, the federal government has no choice but to expand the base and invest in effective collection and the provinces have to focus on fully exploiting the potential of sales tax on services, agricultural income tax and property taxes. This will allow the provinces to rejuvenate the provincial finance commissions as vehicles for better service delivery at the local level. Expenditures have not matched the increased revenue because of the weakness at the local level, a situation that might change after the elections.

As for the NFC, the battleground is now likely to move from revenue to natural resources. The constitutional provisions related to oil, gas and hydroelectric resources remain to be fulfilled in letter and spirit. Balochistan's insistence on the recognition of its constitutional right before the Ministry of Petroleum and Natural Resources can award new licenses to oil and gas exploration companies, shows which way the wind is blowing.[12]

It was seen above that the while the total expenditure on poverty reduction remained the same in the post-NFC period, the large bulk of it was shifted to the provinces. Provincial Finance Commissions, when set up after the elections, will be better positioned to use an effective criteria to allocate resource for poverty reduction at the district level. They will be well-served by the Multidimensional Poverty Index (MPI), which can be deconstructed by region and dimension. It is now an acknowledged tool for effectively targeting the most deprived. More important, the MPI will position the policy maker better to do better in regard to Sustainable Development Goals than their performance in the case of the Millennium Development Goals.

1. The Constitution of the Islamic Republic of Pakistan 1973: As amended by the Constitution (Eighteenth Amendment) Act, 2010. Centre for Civic Education, Islamabad.
2. On 21st July, 2005 an informal meeting was held which could not reach a consensus on the formula for resource distribution. The provincial share was increased under the Distribution of Revenues and Grants-in-Aid Order 2006.
3. Pervez Tahir, *"Problems and Politics of Fiscal Federalism in Pakistan."* In Problems and Politics of Federalism in Pakistan, edited by Pervaiz Iqbal Cheema and Rashid Ahmad Khan. Islamabad Policy Research Institute. 2006.
4. Report on Biannual Monitoring on the Implementation of National Finance Commission (NFC) Award, Ministry of Finance. The last available report relates to July – December 2013.
5. Ministry of Finance, Press Release, 28 April, 2015.
6. The Express Tribune, April 29, 2015.
7. The Express Tribune, May 18, 2015.
8. The Express Tribune, May 11, 2015.
9. The Express Tribune, April 28, 2015.
10. Dawn, May 13, 2015
11. Ministry of Finance, Budget in Brief 2015-16,, p.15.
12. The Express Tribune, June 3, 2015.

Table 13: Per Capita Revenues and Expenditures by Province

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	X times increase
Punjab							
Total Revenue	4,133	5,422	5,945	6,886	7,729	9,741	2.3
Federal Transfers	3,344	4,706	5,190	5,584	6,216	7,583	2.3
Provincial Taxes	306	333	434	794	993	1,695	5.5
Provincial Non taxes	293	244	256	275	221	605	2.1
Loans and Grants	190	141	77	262	364	-	-
Current Expenditure	3,119	3,836	4,453	5,261	5,307	6,600	2.1
Development Expenditure	1,362	1,095	1,581	1,519	1,888	2,042	1.5
Sindh							
Total Revenue	5,695	7,658	8,649	9,777	10,475	12,456	2.2
Federal Transfers	4,454	6,478	6,426	7,039	8,193	9,644	2.2
Provincial Taxes	223	282	620	702	813	1,101	4.9
Provincial Non Taxes	313	268	277	538	115	375	1.2
Loans and Grants	421	276	588	704	479	213	0.5 ↓
Current Expenditure	4,363	5,739	6,718	6,624	7,008	9,064	2.1
Development Expenditure	1,581	1,444	2,574	2,244	2,582	3,492	2.2
Khyber Pakhtunkhwa							
Total Revenue	6,298	8,948	8,650	9,254	11,192	12,864	2.0
Federal Transfers	3,313	6,317	6,972	7,579	8,665	10,216	3.1
Provincial Taxes	24	37	39	43	120	200	8.3
Provincial Non Taxes	995	1,002	199	379	622	1,947	2.2
Loans and Grants	1,896	1,485	1,341	1,138	1,473	-	-
Current Expenditure	4,228	4,868	5,885	6,599	6,916	9,003	2.1
Development Expenditure	1,644	2,067	2,911	2,815	2,685	4,013	2.4
Balochistan							
Total Revenue	9,736	14,185	14,896	16,736	18,357	18,733	1.9
Federal Transfers	4,800	11,348	11,917	13,690	15,274	16,723	3.5
Provincial Taxes	11	10	11	11	28	36	3.3
Provincial Non Taxes	273	184	566	920	447	579	2.1
Loans and Grants	4,547	2,539	2,309	2,008	2,339	1,060	0.2 ↓
Current Expenditures	6,742	9,693	9,584	10,720	12,960	14,312	2.1
Development Expenditures	2,344	2,734	3,195	4,400	4,375	5,089	2.1

Source: Ministry of Finance, Fiscal Operations.

Table 14 : Pre and Post NFC Utilization Rates of Development Expenditure by Province

	Punjab			Sindh		
	Budgeted	Revised	Utilization Rate	Budgeted	Revised	Utilization Rate
	(Rs. in Billion)	(Rs. in Billion)	(%)	(Rs. in Billion)	(Rs. in Billion)	(%)
2008-09	160.0	173.3	108.3	89.3	87.1	97.5
2009-10	175.0	145.6	83.2	112.9	98.5	87.3
2010-11	193.5	138.8	71.7	153.1	83.6	54.6
2011-12	220.0	165.5	75.2	161.1	155.9	96.8
2012-13	250.0	166.9	66.7	231.2	143.3	62.0
2013-14	290.0	224.1	77.3	229.9	152.0	66.1
2014-15	345.0			215.4		
Average Dev. Exp 2008-09 to 2009-10	**335.0**	**318.9**	**95.2**	**202.2**	**185.6**	**91.8**
Average Dev. Exp 2010-11 to 2013-14	**953.5**	**695.3**	**72.9**	**775.3**	**534.7**	**69.0**
	Khyber Pakhtunkhwa			**Balochistan**		
	Budgeted	Revised	Utilization Rate	Budgeted	Revised	Utilization Rate
	(Rs in Billion)	(Rs in Billion)	(%)	(Rs in Billion)	(Rs in Billion)	(%)
2008-09	41.5	39.0	93.9	15.7	15.2	96.3
2009-10	51.2	46.3	90.6	18.5	25.4	137.3
2010-11	69.3	65.0	93.8	26.8	34.7	129.6
2011-12	85.1	84.5	99.2	31.4	34.0	108.4
2012-13	97.5	88.1	90.4	35.8	35.3	98.6
2013-14	118.0	104.8	88.9	43.9	37.0	84.3
2014-15	139.8			50.7		
Average Dev. Exp 2008-09 to 2009-10	**92.7**	**85.3**	**92.0**	**34.3**	**40.6**	**118.4**
Average Dev. Exp 2010-11 to 2013-14	**369.9**	**342.4**	**92.6**	**137.9**	**141.0**	**102.3**

Table 15: Provincial Shares in Federal Taxes (Rs million)

	Budget 2014-15	Revised 2014-15	Budget 2015-16
Punjab	812,786	751,457	894,653
Sindh	464,007	413,511	482,801
KP(Inclusive of 1% for War	283,675	254,765	300,452
Balochistan	159,714	154,976	171,488
Total:	1,720,182	1,574,709	1,849,394

Source: Ministry of Finance, Budget in Brief.

7th NFC Award: Has it worked?

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A sound system of inter-governmental fiscal transfers constitutes the cornerstone of strong and stable public finances in a country. In Pakistan, about 93 percent of resources are generated at the federal level while the remaining seven percent are collected at the provincial level. Provinces, therefore, rely heavily on federal resources for meeting their expenditure requirements. Inter-governmental fiscal transfers serve two purposes. First, they are meant to address the vertical imbalance, or when sub-national governments' (in our case, provinces) revenues are unable to meet their expenditure requirements due to the asymmetrical assignment of functional responsibilities and financial powers among different governmental levels. Second, inter-governmental fiscal transfers help alleviate horizontal imbalances, or when the revenue capacity of the provinces is inadequate for meeting their own expenditure liabilities.

In recognition of the need to redress these imbalances in a fair and orderly fashion, Article 160 of the Constitution of Pakistan provides for the establishment of a National Finance Commission (NFC) at intervals not exceeding five years. The NFC provides recommendations to the President of Pakistan on the distribution of resources between the federal and provincial governments. The President, through the Presidential Order, provides legal cover to the recommendations of the NFC.

The 7th NFC Award

Before discussing the 7th NFC Award, a brief discussion of the 5th and 6th NFC Awards is essential for appreciating the consensus developed in the 7th NFC Award. The 5th NFC gave its Award in 1996. The salient features of this Award included: i) expanding the divisible pool by including all taxes; ii) fixing the sharing ratio in the divisible pool taxes between federal and provincial governments at 62.5 percent and 37.5 percent respectively; iii) allocating special grants/subvention of Rs. 3.3 billion and Rs. 4.0 billion for NWFP (now KPK) and Balochistan, respectively, to be given for five years from 1997-98 and increased annually in line with the rate of inflation; iv) encouraging provincial governments to achieve a revenue growth of 14.2 percent to get matching grants; and v) discontinuing cash development loans. The 6th NFC was constituted by the President on July 22, 2000, but it could not give the Award during its life, which expired in July 2005.

The 7th NFC was constituted in July 2005 and gave its Award in 2010. The Award became effective from July 1, 2010. The highlights of the 7th NFC Award included major adjustments in vertical as well as horizontal distributions of resources. First, the collection charges which the federal government was deducting prior to the 7th NFC Award were reduced from five percent to one percent, thereby enhancing the divisible pool by four percent and reducing the federal government's share by the same percent. Second, the share of provinces increased from 50 percent to 56 percent in the first year (2010-11) of the Award and further to 57.5 percent in the second year (2011-12) onwards. Accordingly, the share of the federal government declined to 44 percent in 2010-11 and further to 42.5 percent in subsequent years.

In horizontal distribution, the shares of Punjab, Sindh and Khyber Pakhtunkhwa (KPK) were reduced by 1.27 percent, 0.39 percent and 0.26 percent, respectively. The reduction in the total share of three provinces (1.92 percent) was passed on to Balochistan by increasing its shares by 1.92 percent. Thus, Balochistan was the major beneficiary of the 7th NFC Award as its share in the net divisible pool was increased from 7.17 percent to 9.09 percent. The share of Punjab declined from 53.01 percent to 51.74 percent. Thus, Punjab rendered a major sacrifice to provide more resources to Balochistan. Recognizing the role of KPK as a frontline province in the war against terrorism, the Award provided an additional one percent of the net divisible pool to KPK to meet the expenses of the war on terror.

While population was once the sole basis for revenue sharing in prior awards, the 7th NFC Award based its allocations and adjustments on multiple criteria—this consensus is one of the greatest achievements of the 7th NFC Award. These include population (82 percent), poverty or backwardness (10.3 percent), revenue collection or generation (5.0 percent), and area or inverse population density (2.7 percent). Special care has been taken for Balochistan in the 7th NFC Award. For example, the share from the divisible pool was guaranteed at Rs. 83 billion in the first year (2010-11) of the Award, which was more than double from the actual share in 2009-10.

It was further guaranteed that Balochistan would receive a provincial share from the divisible pool based on the budgeted or targeted revenue of the Federal Board of Revenue (FBR) from 2011-12 for the next four years while all other provinces would get their shares on the basis of actual collection. In the event of any shortfall in FBR projected revenue (a usual occurrence for the last several years) and hence, shortfall in the divisible pool, Balochistan would be compensated by the Federal Government out of its share in the divisible pool (See Ministry of Finance (2011) for an extensive discussion on 7th NFC Award).

Transfer to Provinces

The 7th NFC Award represents a major step towards fiscal decentralization. The share of the divisible pool increased from 50 percent to 56 percent in 2010-11 and further to 57.5 percent in 2011-12 onwards. Likewise, other transfers to the provinces (straight transfer and special grants/subventions) also increased substantially during the Award period. Transfers to provinces are well-documented in Table 1. A cursory look at this table is sufficient to see that a sizeable sum of resources have been transferred to the provinces during the 7th NFC Award period, both in terms of the divisible pool and other transfers. The year 2010-11 represents the first year of the new Award. Compared to the Rs. 574 billion under divisible pool and the total transfer of Rs. 737 billion in 2009-10, provinces received Rs. 835 billion under the divisible pool (an increase of 45.5 percent) and Rs. 1052 billion as total transfers (an increase of 42.7 percent) in the first year of the new Award.

There are, thus, two notable developments in the 7th NFC Award. Firstly, the amount transferred to provinces during the five years (2005-/06 to 2009/10) prior to the new NFC Award amounted to Rs. 2613 billion. In comparison, the amount of resources transferred to provinces in five years under the new NFC Award totaled Rs. 6671 billion – almost 2.6 times more resources than were transferred previously. Second, the share of divisible pool as a percentage of the total FBR collection increased from an average of 39 percent to 57 percent during the same period – an increase of over 18 percentage points – under the 7th NFC Award. Such comparisons clearly suggest that provinces received considerable amounts of resources during the five years of the new Award.

Table 1: Transfer to Provinces

(Billion Rs.)

Year	Divisible Pool	Straight Transfer	Special Grants/ Subventions	Total	Divisible Pool as % of total FBR tax collection
2004-05	205	41	35	281	35
2005-06	245	57	64	366	34
2006-07	321	70	29	420	38
2007-08	391	66	33	490	39
2008-09	477	82	41	600	41
2009-10	574	81	82	737	43
2010-11	835	163	54	1052	54
2011-12	1063	146	54	1263	57
2012-13	1118	104	61	1283	58
2013-14	1287	124	54	1465	57
2014-15	1477	97	34	1608	57

Source: Pakistan Economic Survey 2010-11 (Table 4.9: PP 60) for the period 2004/05 to 2008/09; Pakistan Economic Survey 2012-13 (Table 4.7: PP 56) for the period 2009/10 to 2011/12; Pakistan Economic Survey 2013-14 (Table 4.6: PP. 68) and Budget in Brief 2014-15 and 2015-16 for 2013/14 and 2014/15, respectively.

At the same time, however, the spending responsibilities of the provinces have also increased, particularly spending on the social sector. How have the newly allocated and transferred resources been used by provinces to improve the lives of the common man in their respective provinces? Have these resources improved the social indicators of the respective provinces? What are the risks associated with the new Award and can Pakistan maintain financial stability with it? Was this Award a political act or did it lack sound economic foundations? Was the timing of the Award correct? These are the imperative questions that this paper attempts to answer.

Has the 7th NFC Award Worked?

There is a general agreement among professional economists that the 7th NFC Award, instead of addressing Pakistan's fiscal challenges, has in fact compounded the country's financial difficulties. Fiscal discipline is regarded as the cornerstone of overall macroeconomic balances. The 7th NFC Award, in contrast, promoted fiscal indiscipline and thus contributed immensely to perpetuating the very macroeconomic instability that hinders sustained higher economic growth. In a federal state like Pakistan, fiscal decentralization is essential for improving the quality of services provided to the masses. However, if fiscal decentralization is badly managed, it can create serious difficulties for the provinces as well as for the federation.

There is also a general consensus among economists that the agreement on the 7th NFC Award was based purely on political, rather than economic, considerations [2]. The Award was finalized in haste, no proper homework was carried out, it lacked proper economic foundations, and the revenue projections for the Award period were grossly unrealistic. The Award has major weaknesses that create serious difficulties for subsequent macroeconomic management.

First, the scope of the Award was too extensive and its implementation was too rapid to manage fiscal decentralization in an orderly manner. A massive amount of resources were transferred to provinces in too short a period and without sufficient consideration given to their fiscal or financial discipline and capacity to spend this money prudently. Accordingly, it not only aggravated macroeconomic instability, but also adversely affected the provision of public goods and services delivery – a key expectation from the public in the event of financial decentralization.

Second, the timing of the 7th NFC Award was inappropriate. The Award was agreed upon and implemented from the 2010-11 fiscal year when Pakistan was facing serious fiscal challenges. These challenges demanded prudent fiscal behavior on part of both the federal and provincial governments. Transferring such a sizeable sum of resources to provinces instead encouraged them to pursue lax expenditure policies which then contributed to the rise in fiscal deficit (fiscal deficit rose from 6.2 percent of GDP in 2009-10 to an average of over 8.0 percent in the next three years)[1]. The timing of this Award was also inappropriate because the interest payment – the single largest responsibility of the federal government – was almost doubled in just three years, from Rs. 387 billion in 2006-07 to Rs. 661 billion in 2009-10. Security and defense related expenditure also rose rapidly during the same years due to geo-strategic developments and the accelerating war on terror. Furthermore, power sector subsidies were rising and the federal government was continuing to provide support to the malfunctioning public sector enterprises (PSEs) in order to keep them afloat. None of these growing financial needs of the federal government were accounted for when determining the amount and timing of the resources to be transferred to provinces.

Third, the federal government appears to have lost interest in undertaking any meaningful tax reform because of the realization that the bulk of any additional tax revenue collected would go to provinces for likely use in spending rather than reducing budget deficit. The federal government itself, on the other hand, will incur the political cost of such reforms, for little financial or political gain.

Fourth, as a result of such a considerable transfer of resources to the provinces, most of their spending was covered by the funds

received from the federal government. Provinces, then, had little incentive to raise their own revenues, further dampening their fiscal efforts. Consequently, the provincial tax-to-GDP ratio which used to hover around as a percentage of the GDP, has now been reduced to one half[2].

Fifth, with the bulk of resources transferred to provincial governments, the responsibility for managing fiscal discipline in the country has also been delegated to the provinces. Keeping the budget deficit low is no longer under the purview of the federal government alone. With already little capacity to spend money prudently, it is difficult to expect provincial governments to maintain fiscal discipline in their respective provinces. Pakistan's overall macroeconomic management would therefore be facing serious challenges going forward.

Sixth, the 7th NFC Award has forced the federal government to take an unconventional route towards achieving their fiscal deficit target. Pakistan is currently under the IMF Program and it is the responsibility of the federal government to meet the IMF conditions, including that of budget deficit. Since the bulk of resources is being transferred to the provinces with little or no responsibility to deliver on commitment, the federal government is forced to take actions which are not consistent with responsible fiscal management. For example, the federal government released resources in such a manner that the provinces were unable to spend this money in time. Such a method of resource release was bound to impact social sector spending and progress towards the Millennium Development Goals (MDGs), which is the prime responsibility of the provincial governments since the 18th Amendment. Furthermore, the federal government started encouraging provincial governments to not spend money by giving them a three-month treasury bill interest rate on their cash balances. This is a perverse incentive with long term implications for human development and economic growth[3].

Seventh, the 7th NFC Award has, additionally, forced the federal government to indulge in 'ingenious accounting,' thereby damaging Pakistan's fiscal statistics. With few resources under its command on one hand and showing a rising tax-to-GDP on the other, the federal government shifted many items from non-tax revenue to 'other taxes'. For example, the Gas Infrastructure Development Cess (GIDC), Natural Gas Development Surcharge (NGDS), and Petroleum Development Levy (PDL), which all used to appear as surcharges and, thus, counted as non-tax revenue, have now been brought under 'other taxes'. Similarly, privatization proceeds (for example, from sale of the governments banking share) that used to appear as financing items (below the line item) are now appearing as non-tax revenue via the profit of the State Bank of Pakistan (SBP)[4]. As a now 'above the line item,' this is helping the government keep the budget deficit artificially low through accounting tricks. Similarly, foreign grants always treated as financing items (below the line items) are now being treated as non-tax revenue, thus inflating overall revenue to arrive at a lower budget deficit number.

Finally, given that the bulk of resources are being transferred to provinces under the 7th NFC Award, the responsibility of maintaining overall financial discipline, keeping the budget deficit under control, and, hence, maintaining macroeconomic stability in the country have shifted to the provinces. The federal government alone cannot increase the country's tax-to-GDP. Without provinces mobilizing their own resources and complementing the efforts of the federal government, raising the tax-to-GDP ratio to the average of developing countries (16-17 percent of GDP) will remain a distant dream.

7th NFC Award: Implications for Social Sector

Social sector responsibilities were transferred to the provinces under the 18th amendment. With such a sizeable addition of resources transferred to provinces under the new Award (Rs. 6.7 trillion in five years under the 7th NFC year versus Rs. 2.6 trillion in previous five years), the people of Pakistan were expecting significant improvements in key social sector indicators. Unfortunately, many indicators have, on the contrary, deteriorated at the national as well as provincial levels. Table 2 documents some key social sector indicators since 2007-08 and until 2013-14 (the latest information available).

A cursory look at this table shows that key social sector indicators are exhibiting a negative trend, perhaps for the first time. Pakistan's overall literacy rate has fallen by two percentage points (from 60 percent to 58 percent) in 2013-14 over 2012-13. Punjab, Sindh and Balochistan witnessed a decline of 1.0, 4.0 and 1.0 percentage points respectively while KPK showed a 1.0 percentage point improvement. Similarly, the net primary school enrollment rate for Pakistan (57 percent) saw no improvement in the last five years. The rate in Punjab has not improved since 2011-12, enrollment in Sindh declined by four percentage points since 2012-13, KPK witnessed no improvement since 2012-13, and Balochistan witnessed a sharp decline (six percentage points) over 2012-13. Education indicators do not show any improvement over the several years.

Health indicators also exhibit the same deteriorating trend. As shown in Table 2, the proportion of fully immunized children (12-23 months) declined by six percentage points over 2012-13. A similar worsening trend can be observed across provinces.

Table 2: Key Social Sector Indicators

Indicators	2007-08	2008-09	2011-12	2012-13	2013-14	Change in 2013-14 over 2012-13
Education (Overall Literacy Rate (%))						
Overall Literacy Rate (%)	56	57	58	60	58	-2
Punjab	59	-	60	62	61	-1
Sindh	56	-	60	60	56	-4
KPK	49	-	52	52	53	+1
Balochistan	46	-	46	44	43	-1
Education (Net Primary School Enrolment Rate [%])						
Overall Pakistan	55	57	57	57	57	0
Punjab	61	-	64	64	64	0
Sindh	51	-	50	52	48	-4
KPK	49	-	53	54	54	0
Balochistan	41	-	39	45	39	-6
Health (Proportion of Fully immunized children (12-23 months)						
Overall Pakistan	73	78	80	82	76	-6
Punjab	76	-	86	89	86	-3
Sindh	67	-	71	74	61	-13
KPK	74	-	80	76	75	-1
Balochistan	57	-	37	45	41	-4
Health (Infant Mortality (Per 1000 Live Births)						
Overall Pakistan	69	-	63	-	65	+2
Urban	45	-	45	-	45	0
Rural	79	-	70	-	74	+4
Coverage of Tap Drinking Water (percent)						
Overall Pakistan	35	-	29	30	30	-4
Punjab	28	-	22	22	22	-5
Sindh	45	-	42	43	43	-1
KPK	51	-	41	44	44	-13
Balochistan	40	-	38	34	34	-2

Source: PSLM Survey 2012-13 and 2013-14, Pakistan Bureau of Statistics, Islamabad

Infant mortality (per 1000 live births) also exhibited a rising trend at both the national and rural levels.

Providing safe drinking water is a critical responsibility of provincial governments. Despite receiving an enormous amount of resources through the 7th NFC Award, the provinces failed miserably in this regard. The coverage of tap drinking water, of late, has declined at the national as well as at provincial levels.

This worsening of social indicators clearly suggests that for national and provincial governments, provision of basic social services to their people have not been a priority. Such poor service delivery reflects a complete breakdown of governance[5]. People are thus, more than justified in questioning where the Rs. 6.7 trillion transferred to the provinces under the new NFC Award have gone.

How to Salvage the 7th NFC Award?

The improperly planned, timed and managed 7th NFC Award has created serious challenges for macroeconomic management in Pakistan. A more preferable option should have been a gradual move towards extensive fiscal decentralization. This would have given provinces ample opportunity to build their fiscal management capacities as well. The damage has already been done as far as financial discipline is concerned. The real challenge is now salvaging the ongoing Award until we have consensus on a new one. Some suggestions are in order.

First, the 7th NFC Award should not weaken the federal government's ability to reduce fiscal deficit and public debt. In this connection, provincial governments ought to significantly improve their own revenue collection and/or curtail unnecessary expenditure.

Second, under the 7th NFC Award almost three times more resources were transferred to the provinces. Why should the federal government, with its drastically reduced resources, still finance provincial development projects? A better route would be for the federal government to finance only federal projects or strategically important ones. Provincial development projects should be financed from the respective provincial government's revenues.

Third, one of the special features of the 7th NFC Award was the recognition of the requirements of Balochistan. It decided that Balochistan, as opposed to the other three provinces, would receive provincial share in the divisible pool on the basis of budgeted FBR revenue instead of actual FBR collection for the next four years (that is, from 2011/12 to 2014/15). Shortfall, if any, would be borne by the federal government itself. The federal government has paid Rs. 67.4 billion to Balochistan during the last four years of the Award[6]. From the 2015-16 fiscal year onwards, Balochistan's share should be calculated on the basis of actual FBR collection – the same practice applied to all other provinces.

Fourth, to achieve the fiscal deficit target without resorting to accounting tricks, some hard binding constraints must be put in place, in the form of binding the provincial governments to deliver required surpluses to meet the consolidated budget deficit target. The Council of Common Interests (CCI) or National Economic Council (NEC) may be used as forums in order to decide the level of surplus for the provinces. The sooner we move, the better it is for the country's fiscal stability.

Fifth, the federal finance minister has recently announced that the provincial governments could borrow up to 0.5 percent of GDP each year. Control of provincial borrowing should not only cover borrowing from domestic and international markets. Rather, domestic borrowing must include borrowing from the Central Bank (SBP) as well as from provincial banks. These provincial banks could become a captive source of financing[2]. This can be materialized by introducing Provincial Fiscal Responsibility and Debt Limitation Laws similar to those present at the federal level.

Sixth, a high-powered, permanent national finance commission may be established. This could consist of well-known fiscal economists and retired finance and/or revenue division secretaries, preferably representing each province. The purpose of this commission would be to conduct research pertaining to inter-provincial fiscal relations, to monitor the province-specific fiscal reforms programs, and to ensure service delivery in each province. 75 percent of the divisible pool can be released to the provinces without linking it to the performance of monitored fiscal reform programs and service delivery. The remaining 25 percent of the divisible pool may be linked with performance progress.

Finally, in the case of federal projects executed in the provinces and any debt so acquired, the respective provincial governments may share debt servicing costs with the federal government.

The above-listed recommendations are not exhaustive. A variety of international experience is available to strengthen inter-provincial relations. Pakistan needs to use forums like the CCI or the NEC in order to promote cooperation between federal and provincial governments in order to better manage fiscal decentralization.

Conclusions

A broad-based, orderly and well-managed fiscal decentralization is expected to improve public service delivery hence improving the living conditions of the people. Unfortunately, fiscal decentralization implemented through the 7th NFC Award was too-extensive, too-fast and managed in a disorderly environment resulting in serious macroeconomic challenges. Almost three times more resources transferred to provinces during 7th NFC Award period compared with five years of the pre-Award period, promoted fiscal indiscipline in provinces as well as at the federal level.

After the 18th amendment, social sector responsibility has shifted to provinces. With the bulk of resources transferred to provinces, there were expectations that social indicators of provinces as well as overall for Pakistan would improve significantly.

Unfortunately, key social indicators have deteriorated, reflecting a lack of priorities of the provincial governments as well as a collapse of governance pertaining to public service delivery. Besides, the lack of fiscal discipline and capacity of the provinces in spending money prudently have widened the fiscal deficit.

The damage has already been done. The responsibility of maintaining financial discipline in the country has shifted towards provinces. Federal government alone cannot deliver on fiscal commitment with the IMF unless it is ably supported by the provinces. This paper provides several recommendations to salvage the 7th NFC Award as well as provides recommendations for the new Award. The list of recommendations is not exhaustive. There are many international experiences available in different parts of the world that Pakistan can learn from.

Strengthening fiscal discipline at both the federal and provincial levels are essential for restoring fiscal sustainability. Without strong tax efforts and sound public finance, the current decentralization is unlikely to deliver the expected benefits. Clear assignment of responsibilities at the federal, provincial as well as local levels are needed to strengthen accountability of policy makers and those responsible to deliver under decentralization.

1. Fiscal deficit numbers for the year 2013-14 and 2014-15 are not comparable with previous years owing to changes in definition of revenue, expenditure and fiscal deficit.
2. IMF (2012), *"Pakistan: 2011 Article IV Consultation and Proposal for Post-Program Monitoring",* Washington, D.C., International Monetary Fund.
3. Khan, Ashfaque H. (2014), "*Projecting Unrealistic Budgetary Targets*", Development Advocate Pakistan, Vol. 1, Issue 3, October, UNDP, Pakistan.
4. Davis, J., Rolando Ossowski, Thomas Richardson, and Steven Barnett (2000), "*Fiscal and Macroeconomic Impact of Privatization*" Occasional Paper 194, Washington, D.C., International Monetary Fund.
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6. Ministry of Finance (2011), Federal Budget: Budget in Brief 2011-12, Islamabad: Government of Pakistan.

Provincial Finance Commission Awards: A tool for inclusive development

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Local governments have had a chequered history in Pakistan. A look into the past reveals that local government enjoyed an unprecedented fiscal autonomy during 2001 to 2007-08. During this period, Provincial Finance Commissions (PFCs) were constituted for the first time in all the provinces of Pakistan. These commissions formulated a transparent mechanism for both vertical (distribution of resources from province to all districts) and horizontal distribution (among the districts). However, this system was discontinued in 2007-08.

It was expected that the 18th amendment would spur a new life into the local government owing to addition of Article 140A in the constitution, which devolved political, administrative and financial responsibility and authority to the elected representatives of the local governments in each province. This amendment to the constitution aimed to give due status to local governments. However, the progress on this front has been rather slow. Even after a period of five years, only two provinces have held elections of local governments. Devolution of political, administrative and financial responsibility and authority is still a far reality.

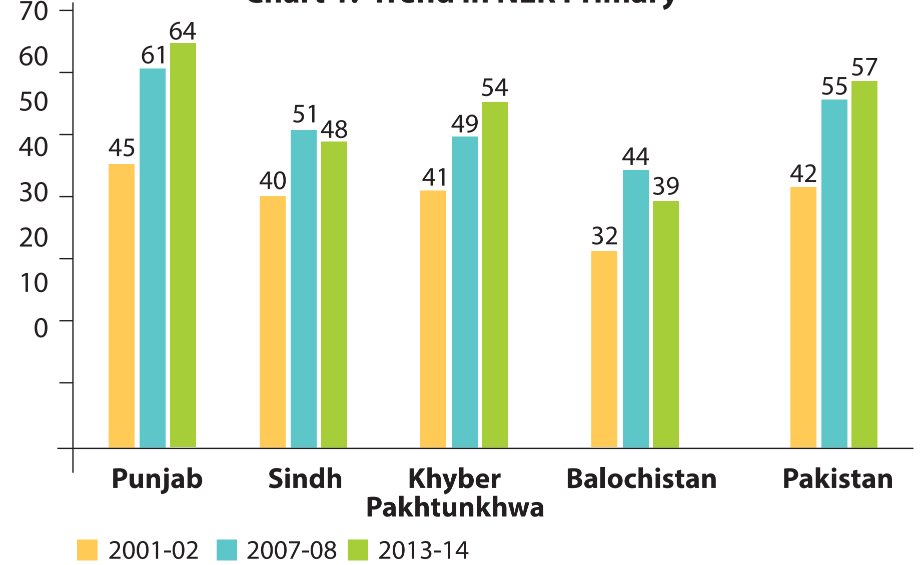
Why Local Governments Matter

Fiscal decentralization is a major agenda item of development policy in several developing countries. There is an abundance of both theoretical and analytical literature highlighting gains from fiscal decentralization, which is believed to mitigate fiscal disparities among regional governments and to assure the delivery of basic public services to citizens across the country. It increases efficiency that leads to consequent welfare gain. It leads to enhanced accountability, increased transparency and expanded constitutional participation in decision making at the regional level. These gains are attributed to moving governance closer to the people by providing equitable resources in line with expenditure needs through a transparent mechanism. However, there is a need to analyze whether the process of fiscal decentralization along with PFCs have had a positive or negative impact on development in Pakistan.

Chart 1 represents the trend in primary Net Enrollment Rate (NER), which is simply a ratio of children aged 5-9 years enrolled in primary classes (1 to 5), divided by the number of children in the same age cohort. It shows that Pakistan made significant progress during 2001-02 to 2007-08 when the NER increased from a meager 42 percent to 55 percent, over a period of six years. Thereafter, during 2007-08 to 2013-14, this pace in growth moderated substantially as NER witnessed an increase of only two percent. More interestingly, growth in NER during the local government system is visible in every province, while magnitude varies from eight percent to 18 percent. In contrast, during 2007-08 to 2013-14, NER in both Sindh and Balochistan showed a decline of three and five percent respectively, despite hefty increase in allocations towards the education sector after the 7th NFC award. Even Punjab and Khyber Pakhtunkhwa showed a moderate growth of three and five percent respectively.

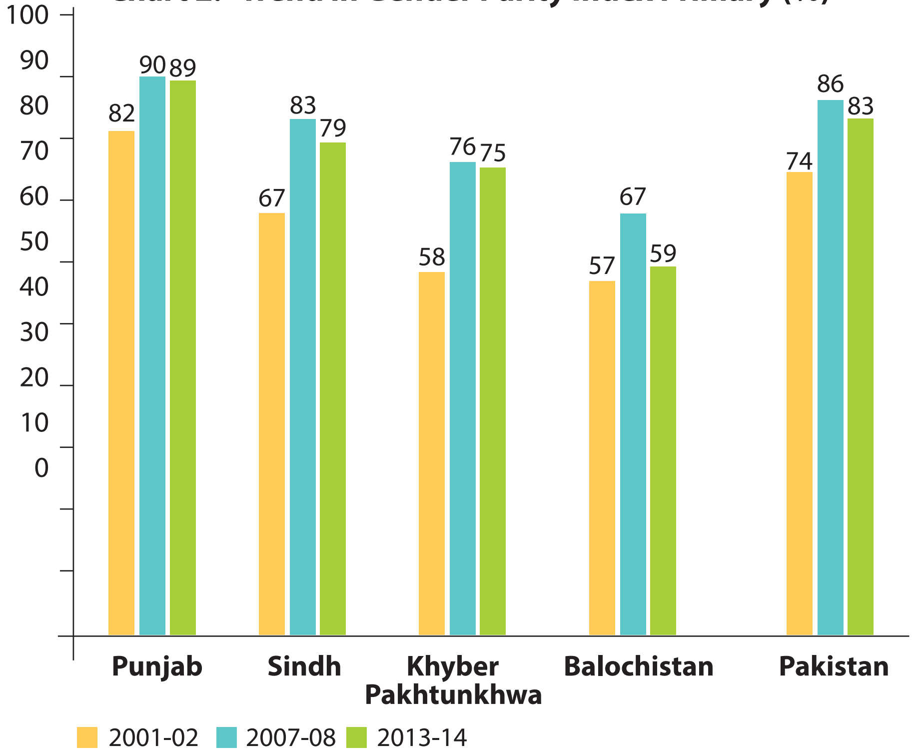
In the presence of local governments and PFCs, gender equality in education improved. The ratio of girls' enrollment to boys' enrollment increased to 86 percent in 2007-08 from 74 percent in 2001-02, only to decline by three percent in the same amount of time. During local governments and PFCs, each province showed improvement in gender equality in education and quantum of increase ranged between 8 to 18 percent. However, later on every province showed a decline in gender equality in primary enrollments (Chart 2).

Chart 1: Trend in NER Primary



Source: Pakistan Social and Living Standards Measurement Survey (various years)

Chart 2: Trend in Gender Parity Index Primary (%)



Source: Pakistan Social and Living Standards Measurement Survey (various years)

A similar trend is visible in child immunization. Pakistan made significant progress during 2001-02 to 2007-08 by increasing the coverage of fully immunized children from 53 to 73 percent. Province-wise trend reveals that this increase was due to an improvement in all four provinces, in particular the progress made in Balochistan is commendable. However, after 2007-08, this trend changed. While Punjab and Khyber Pakhtunkhwa show further progress of 10 and one percent in child immunization, the percentage of fully immunized children in Balochistan and Sindh declined by 16 and six percent respectively.

Salient Features of Provincial Finance Commission (PFC) Awards

The aforementioned examples can be used to highlight the positive contribution of local governments. One of the key contributors in the successes of local government is the financial autonomy, which was designated through PFCs. These PFCs have transparent and equitable resource distribution mechanisms. PFCs have created many opportunities for inclusive development through promoting gender equality, poverty reduction and other development objectives. PFC grants systems were based on multiple criteria that varied among the provinces. In case of Punjab, factors of population and backwardness were used in the first PFC award for horizontal distribution of resources. Sindh's first PFC award had four criteria including population, backwardness, tax effort/collection and performance. Khyber Pakhtunkhwa's first PFC had population and backwardness, and development incentive/infrastructure deficiency as distribution criteria. Finally, Balochistan's first PFC award used population and area as the distribution criteria. While, these formulas were revised in the next PFC awards, they had elements of backwardness or deprivation, which made resource distribution more equitable. In this way, PFCs worked as a tool for inclusive development in Pakistan.

The Way Forward

After the discontinuation of seven to eight years, it is expected that local government elections in all provinces would be completed this year and the process of fiscal decentralization will commence again as per the spirit of the constitution. The fiscal autonomy of the local government requires well functioning PFCs, which can use transparent multiple criteria similar to the past for horizontal distribution. A variety of choices are available for the indicators of backwardness/ deprivation including the SPDC deprivation index and the Multiple Poverty Index of UNDP. Both the indicators are available for all districts of Pakistan and are based on government data.

7th NFC-Constitutional and Legal importance

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Intergovernmental fiscal transfers are a crucial feature of public finance structure in any federal system of government. The transfers 'correct' vertical and horizontal financial imbalances in a system where federal or central governments are responsible for collecting the bulk of tax revenues.

In Pakistan, such transfers are made vertically between the central government and the provinces, and horizontally among provinces through the constitutionally mandated mechanism of the National Finance Commission (NFC). Article 160 of the 1973 Constitution requires the commission to be set up every five years to give an award for sharing the net proceeds of the federal divisible tax pool, both vertically and horizontally.

It is a hard and long road of negotiations for both the federal and provincial governments in order to attain a favourable deal. Consequently, the formulation of a consensus award has always remained a challenge. Before the conclusion of the 7th NFC award in December 2009, only three out of the six commissions formed since 1974, could conclude their proceedings and give consensus-based awards. Some tough bargaining is expected in the future.

The lack of consensus can be attributed majorly to the differences (between the provinces) on the horizontal formula for interprovincial redistribution of their combined share from the federal divisible tax pool.

The historic 7th award brought about crucial changes in the resource-sharing formula both vertically and horizontally. These changes have had substantial financial impact on both the centre and the provinces. For example, it increases the size of divisible funds for the provinces, raises their collective share from the tax pool and changes the formula used for interprovincial resource distribution to tackle the most contentious issue between them. Not only that, the 7th award made the mechanism of federal fiscal transfers much more transparent and less discretionary than before.

A special effort was made to compensate Khyber Pakhtunkhwa for the losses to its economy and infrastructure owing to the war on terror during the life of the award. Similarly, Balochistan's needs for its development were recognized and its share, as a percent of the collective provincial share, was enhanced to over nine percent.

In addition to reforming the vertical and horizontal share of the tax divisible pool, the award also recognized the provinces' right on the provincial general sales tax (GST) on services. Mechanisms for other straight transfers such as net hydel profits and surcharge on gas were also improved to further benefit the smaller provinces. The decisions made in the 7th award have been constitutionally protected through the 18th amendment, which was passed by the parliament months after the agreement on the present award. Besides devolving most federal functions to the provinces, the 18th amendment also protects the provincial share from the divisible pool determined in the award. In addition, it allows them to borrow from both domestic and international sources, subject to federal permission.

According to various studies on the impact of the 7th NFC award on the federation and the provinces, all these changes disproportionately favoured Balochistan (the province is an only net gainer in relative terms due to changes in the horizontal formula indicators) and Khyber Pakhtunkhwa–the two most underdeveloped provinces. Punjab and Sindh did not lose either–at least not in absolute terms. It makes the award a fiscal equalizer.

The award successfully and substantially changed the design of the resource distribution mechanism by allocating a higher share in the financial resources to the provinces. This was done in view of the fact that provincial governments are 'closer to the citizens and largely responsible for financing public service delivery'. But it has not been able to attain the targeted level of development. Several factors are blamed for the 'shortfall' in the social sector development target over the life of the award expiring on June 30 this year.

During negotiations on the award, it was assumed that the federal and provincial governments would work to raise the tax-to-GDP (gross domestic product) ratio from nine to 15 percent. That meant that the federal government would still have more than adequate resources to finance its functions despite a reduction in its share from the divisible pool in relative terms. At the same time, it was assumed that the provinces would receive significant funds to improve the quality of public services and bring them closer to the people. That did not happen. The federal government failed to increase its tax collection according to the projections of the award. Although the provinces have substantially increased their tax revenues over the last five years, mainly because of the transfer of GST on services, they have failed to effectively tax income from agriculture and property. In reality, the tax-to-GDP ratio dropped to 9.19 percent in the first four years of the award, from 9.39 percent during the four years preceding its finalization.

Much of the fiscal space allowed in the award to the provinces for increasing their social sector expenditure was immediately squeezed by the federal government through a 50 percent spike in the salaries and pension of government employees in its first year, 2010-11. Consequently, the non-development expenditure of the provinces and the centre spiked significantly faster at the cost of development investment. Subsequently, the yearly raise given to government employees further increased the burden on the provincial resources.

The provincial governments were forced to impose further cuts on their development spending when the federal budget deficit surged to over eight percent of the GDP in 2012-13, owing to unbridled spending on energy subsidies and other rising non-development expenditure . Islamabad was forced to knock at the door of the International Monetary Fund (IMF) for a bailout package. One of the conditions of the IMF package demanded that the provinces balanced their budgets and produced surpluses to help cut the consolidated fiscal deficit. In 2013-14, the provinces produced a budget surplus of 0.59 percent of the GDP against the NFC projection of 0.12 percent.

Expected to be delivered before the end of the next financial year, the 8th award must 'fine tune and refine' the provisions of the present award and resolve the issues arising after the passage of the 18th amendment to ensure that common people receive the development benefits that had been promised.

One area that requires immediate attention by the NFC pertains to the heavy reliance of the provinces on federal transfers. The new award should find ways and means to encourage the provinces to reduce their dependence on proceeds from the divisible pool by raising their own taxes. Some targets and incentives for the provincial fiscal efforts can be agreed upon. For example, the weight assigned to tax collection and generation in the horizontal formula can be increased. Also, the task of imposing and collecting income tax on agriculture can be transferred to the centre and GST on goods to the provinces to enhance their revenues and to encourage the manufacturing industry in their respective areas.

Second, the provincial governments should be given specific development targets in the social sector with their performance monitored. This is to ensure that they use the fiscal space provided by the increased share from the divisible pool, for improving the quality of public service delivery.

Third, the provincial governments should be bound to set up provincial finance commissions (PFCs) and share the development funds with the local governments to ensure more effective and better utilization of funds according to the actual needs of the people. The purpose of both the 7th NFC and the 18th amendment was to devolve power-both administrative and financial-to the grassroots. That objective cannot be achieved without the effective involvement of the local tiers of the government in the development activity.

Fourth, the formula for interprovincial or horizontal distribution of funds should be refined to ensure the most underdeveloped provinces obtain greater access to federal funds.

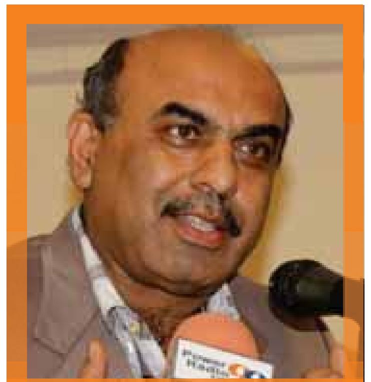
The next award must also tackle issues that cropped up after the finalization of the 7th award. The foremost among them is related to the cost of functions devolved under the 18th amendment that decentralize several federal functions to the province. Such functions include the vertical healthcare programme which the provinces have declined to accept unless the federal government also transfers allocations for it. Since such programmes have a direct bearing on the quality of life of the public, there is a great urgency for the new award to find a solution to this.

Then there are issues such as the federal government's fiscal problems and its loan agreement with the IMF. Most importantly, at the instance of the IMF, the federation puts pressure on the provinces to produce budget surpluses. This shrouds the provinces' capacity to increase development investment and is against the spirit of the NFC award.

Also unfair is the 'encroachment' of provincial territory by the federal government in the matter of taxation. The federal government treats several provincial services as goods and has imposed tax in excise duty mode. This stalls the provincial fiscal effort.

It is expected that the next award will pick the thread from where the present award had left and deepen the fiscal and administrative devolution effort to the local level started by the 18th amendment.

7th NFC Award: Is there any impact?



Naseer Memon

Chief Executive
Strengthening Participatory
Organization (SPO)

The 7th National Finance Commission Award (NFCA) marked a major policy shift that attempted to enhance provincial share in the vertical distribution and diversify the distribution criterion for the horizontal distribution of resources. Additionally, the federal government reduced its tax collection charges substantially from five to one percent. The net impact has been significant increases in the overall share of the provinces in the divisible pool. Some analysis[1] puts this increase at Rs. 1228 billion when compared to the 6th NFCA. Province wise, Punjab was expected to get Rs. 320 billion, Balochistan Rs. 319 billion, Sindh Rs. 290 billion and Khyber Pakhtunkhwa (KP) Rs. 307 billion. The actual provincial receipts, however, fell below the projected share due to a shortfall in revenue collections against the projections done in the base year 2009/10.

It was expected that the increased allocation would result in enhanced social sector expenditures at the provincial level which has occurred, but not as projected. In the post 7th NFCA period, the provincial development expenditure has increased by 13.6 percent against the NFC projections of 36.9 percent. The current expenditure, on the other hand, has increased by 16.4 percent against the projection of 14 percent.

Besides some increase in the social sector spending by provinces, transfer of new subjects has also put an additional burden on their resources. With the passage of the 18th amendment, 47 subjects of the erstwhile concurrent list were devolved to the provinces. Transfer of these subjects entails an additional hefty salary & pension bill, development of infrastructure of the devolved departments and expenditure on operation, maintenance and procurements. In other words, the impact of higher spending in the social sector has been mostly offset by the new burden of expenditures.

But it is not only about development expenditures, one should also look at the impact of it on the lives of the citizens. Within overall development budgets, spending on social sector avenues is of critical importance. It directly contributes towards the improvement of human development indicators by creating social capital, improving basic social services that are considered a basic human right and reducing poverty that ultimately leads towards socio-political stability in a society.

Ultimately, it is not the spending but the results that will matter to judge the social sector performance. This injection of additional resources cannot be rejoiced if key human development indicators do not register some visible improvement. An example is a decline in the overall literacy rate of Pakistan. According to the latest report of the Pakistan Social and Living Standards Measurement (PSLM) survey, Pakistan's literacy rate has slipped from 60 percent in 2012-13, to 58 percent in 2013-14. Higher spending, it seems, could not yield desired results. Spending is very important, yet just one of the variables. Other critical factors such as population growth and investing resources at the right place in an effective manner are of equal importance.

Pakistan's status is off-track on most MDGs indicators before and after the NFC. The following table provides a summary of the situation.

MDG indicators	Pre-NFC status*	Post-NFC status**
Goal 1: Eradicate Extreme Poverty and Hunger	3/3 indicators off track	2/3 indicators off track
Goal 2: Achieve Universal Primary Education	3/3 indicators off track	3/3 indicators off track
Goal 3: Promote gender equality and women's empowerment	5/5 indicators off track	4/5 indicators off track
Goal 4: Reduce Child Mortality	5/6 indicators off track	5/6 indicators off track
Goal 5: Improve Maternal Health	5/5 indicators off track	4/5 indicators off track
Goal 6: Combat HIV/AIDS, Malaria and Other Diseases	4/5 indicators off track	3/5 indicators off track
Goal 7: Ensuring environmental sustainability	5/7 indicators off track	3/7 indicators off track

*Based mostly on PSLM data for 2008-09 and 2009-10
**Based mostly on PSLM data for 2011-12 and 2013-14 (subject to availability)

1. Policy paper No. 25, Social Policy and Development Centre, Karachi

Opinion

The Perspective of Development Partners on the 7th NFC and the Way Forward

Faisal Rashid

Public Financial Management Advisor
DFID assisted Subnational Governance Programme

The 7th NFC Award and 18th Constitutional Amendment are important landmarks of fiscal federalism in Pakistan. By devolving greater resources to the provinces, they allowed citizens to become empowered in attaining easier access to resources and authority.

The award promised success at two levels: the national and the provincial. At the national level, the federal government agreed to reduce collection cost (charged by it) from 5.2 percent on average to just one percent, to enlarge the size of the divisible pool of taxes. This resulted in an increase in the share of provinces from approximately 46.25 percent of the divisible pool in 2009-10 to 56 percent in 2010-11 (and 57.5 percent thereafter). The provinces were given the sole right to tax on services and collection and Khyber Pakhtunkhwa was allotted Rs. 110 billion in lieu of its claim of net-hydel profit along with one percent share from the divisible pool as resources to deal with the effects of the war on terror, whilst Balochistan was aided in the initiation of a large 'Aghaz-e-haqooq-e-Balochistan' package. Federal & provincial governments also agreed to take measures to increase the tax-to-GDP ratio to 15 percent by the terminal year of the 7th NFC.

The award also infused the spirit of greater equalization between the provinces, when Punjab moved away from its traditional stance of horizontal distribution on the basis of population and allowed inclusion of 'inverse population density', 'revenue' and 'poverty' to the formula. Three provinces also agreed to reduce their horizontal share by two percentage points to increase the share of the Balochistan.

In short, the Award was a good example of sacrifice and accommodation. But was it a good transfer system i.e. did it meet the criteria for a good transfer system? Did it create incentives for good fiscal behavior i.e. revenue mobilization including the revenue-to-GDP ratio and expenditure efficiency? We will try to analyze the 7th NFC Award based on this criteria.

Transfer systems are based on the principles of adequacy, budgetary autonomy, equity, predictability, simplicity & transparency. Sufficient resources for service delivery need to be provided to the provinces, with minimum conditions placed on provincial budgetary autonomy, along with the establishment of a transparent and predictable fiscal transfer system that is imperative to ensure adequacy.

While computing the aforementioned conditions with the 7th NFC Award, it appears that adequacy, including provincial budgetary autonomy, have been fulfilled by the Award. The Award increased provincial resources by one percent of GDP per annum and did not put undue restrictions on provincial government's pursuit for efficiency or provincial priorities. Similarly, it seemed to meet the requirements of 'predictability' and 'simplicity and transparency' because of being a formula based on a few variables. Apparently, it also seemed to have increased fiscal equalization among provinces by inclusion of factors such as 'inverse population density', 'poverty' and 'revenue' as the basis for horizontal distribution as a result of which small and relatively backward provinces received more resources. However, in order to ensure an adequate transfer system, a mechanism needs to be put into place in order to ensure effective utilization of resources, which was not the case. An example of the outcome is the one percent allocated to Khyber Pakhtunkhwa on account of the war on terror. Due to the absence of an accountability mechanism, there is no guarantee that these funds were actually utilized for the intended purpose.

In addition, some variables were not dealt with well in the award. For instance, in the case of 'revenue', provinces were rewarded based solely on their past contribution to the national revenue and these shares were fixed for the life of the award. A better strategy would have been to reward own source tax collection by provinces by offering a matching grant to the provinces. It would have helped increase the country's tax-to-GDP ratio and created incentives for good fiscal behavior.

The award also endeavored to increase the revenue-to-GDP ratio by 15 percent. This objective was to be attained by an increased collection of taxes that would be directly proportional to an increase in revenue. However, as this provision was not binding, hence, it failed to receive much attention by the governments. As a result, widespread dissatisfaction from public sector delivery was observed, with citizens unwilling to pay taxes. It would be important that while deciding the next award we develop a mechanism that would ensure maximum revenue effort by all governments.

The 7th NFC also allowed provinces to collect sales tax directly, whilst previously, this collection was being done by the federal government. Ideally a tax like sales tax on services, involving cross province transactions, should not be collected by provinces as it raises risks of tax exporting and double taxation that has resulted in inter-jurisdiction and inter-tax issues. This arrangement also elevated business costs as taxpayers now have to file multiple tax returns and deal with multiple tax agencies.

A solution to several of the flaws in the 7th NFC could have been that it should have come after the 18th amendment. This would have allowed federal & provincial governments to share resources in the light of their functional mandates. Consequently, the financing of devolved functions to provinces is still a contentious issue and is holding back the benefits of the 18th amendment. Incentives are in place for the federal government to stop funding vertical programmes of the health sector after 2014-15, as decided by the Council of Common Interests (CCI) a few years ago. On the other hand, provinces may not be willing to take up these costs unless they are provided additional resources by the federal government. These vertical programmes deal with important services of primary health such as family planning, mother & child health, immunization, TB control etc. If things pan out as feared above, we may see a disruption in these important services to the citizens.

While the 7th NFC Award did create a spirit of accommodation and sacrifice, it is integral that the next award goes beyond this to create incentives for better fiscal behavious by all governments. It must also try to resolve issues of funding of devolved functions so that provinces can fully focus delivery of services on accounts of these new functions. The award needs to create space for responsible provincial governments that have good fiscal rules in place to borrow for their development. This would help them overcome their infrastructure financing gap and provide better services to citizens. Similarly, use of factors like 'poverty' and 'revenue' in horizontal distribution need be appropriate. The 'poverty' factor must provide resources to the provinces in accordance with their share corresponding to actual poverty statistics. This will help improve targeting of resources to alleviate poverty. The 'revenue' factor should reward provinces for their performance in own source revenue. Most importantly, it is imperative that all stakeholders unite to increase the 'size of the cake' i.e. to increase the tax-to-GDP ratio of the country. Unless this happens, no distribution formula will be able to shape Pakistan's destiny.

say that again

"...if we can mobilize higher resources, the size of the "pie" increases, hence leading to a win/win situation for all federating units."

Dr. Ayesha Ghaus Pasha

Provincial nominee for NFC - Punjab

Was the 7th NFC award adequate (in terms of provincial share) for the socio-economic development of the province?

Some very important developments have taken place since the 7th NFC award. The last NFC predates the 18th amendment, which enhances the provincial functional responsibility and changes provincial dynamics considerably, and as such, the provinces have to be compensated accordingly. There has also been a major change in the security perspective. Security efforts are now focused in multiple areas; the related expenses are much greater, especially under the National Action Plan. And providing security for our citizens is pivotal to our economic development and our economic growth. Punjab will be hoping for an enhancement in revenue transfers.

Do you think the divisible pool should be broadened? If yes, what are the options?

The divisible pool consists of the taxes collected by the federal government. In order to broaden it, the federal government will have to take necessary measures for higher resource mobilization through the Federal Bureau of Revenue. If we can mobilize higher resources, the size of the "pie" increases, hence leading to a win/win situation for all federating units. The other way to broaden the divisible pool is to bring more revenue sources in it. There still are some revenue sources which do not currently fall in the divisible pool.

What changes would you like for the 8th NFC in terms of the vertical and horizontal distribution criteria of the divisible pool?

Revisions are definitely required. The vertical share has to be enhanced. Likewise, the horizontal distribution criteria has a lot of room for improvement. Punjab has been very accommodative of the other provinces in the 7th NFC award and we are hoping this time that other provinces will reciprocate. Also, the tax to GDP ratio in Pakistan is very low, and improving this ratio is essential as more funds are needed to finance our efforts towards the betterment of the people, to improve service delivery, to stimulate growth and thus improve the quality of life for Pakistanis.

Don't you think there is a need for a criteria based provincial finance commission award (PFC) on the pattern of the NFC? Has your province done anything in this regard?

Most definitely. The lower tier must have proper funding through provincial finance commissions. This is absolutely essential and the mechanism must be transparent, non-discretionary, non-discriminatory and clear. Punjab is already working on it and I think we will unveil the PFC forum soon.

Do you think the NFC process should cover the three administrative regions (FATA, GB, AJK)? Why or why not?

Under Article 160 of the Constitution, the NFC applies to the federation and the four provincial administrative areas. FATA, GB and AJK are the federal government's responsibility.

Chaudhry Abdul Majid

Prime Minister - Azad Jammu and Kashmir

Do you think the NFC process should cover the three administrative regions (FATA, GB, AJK)? Why or why not?

Constitutionally, Kashmir is not a part of Pakistan, but it is administered by Pakistan. It does not have a special status that would place it parallel with other provinces. Till date, the budget for all development projects has been supplied by the government. Being made a part of the NFC will enable an increased funds allocation to Kashmir which in turn can be effectively utilized in development projects. Therefore, this will prove to be very beneficial for Kashmir and its people.

say that again

"...fiscal discipline and effort, should be awarded in the NFC awards"

Dr. Hafeez Ahmed Pasha

Distinguished Economist and Chairman,
Panel of Economists
(Independent advisory committee for the government)

Was the 7th NFC award adequate (in terms of provincial share) for the socio-economic development of the provinces?

A good step forward via the 7th NFC was that the vertical allocation was raised to 57.5 percent. As a result, provinces roughly gained Rs. 200 billion, which is about one percent of the GDP. This was a very substantial increase in transfers to the provinces. Additionally, there was a certain degree of fiscal equalization, as the horizontal criteria moved beyond the relative populations of the four provinces. Of course, as a result, the smaller provinces of Balochistan and Khyber Pukhtunkhwa benefited, while Punjab lost out. However, even then, Punjab received more than it did in the previous award.

Do you think the divisible pool should be broadened? If yes, what are the options?

The problem is that the 18th amendment came post the 7th NFC award. There are a number of functions that have not been transferred to the provinces and certain big ticket items that have not been accounted for. That being said, as of now, the share is quite large, and should stay where it is.

What changes would you like for the 8th NFC in terms of the vertical and horizontal distribution criteria of the divisible pool?

There should be more provisions in the horizontal criteria. After the last award, the provinces went on a binge of spending by increasing salaries. Meanwhile, development spending did inflate, primarily because of a lack of capacity, particularly in the smaller provinces. With this limited capacity to mobilize fiscal resources, the development portfolios have suffered.

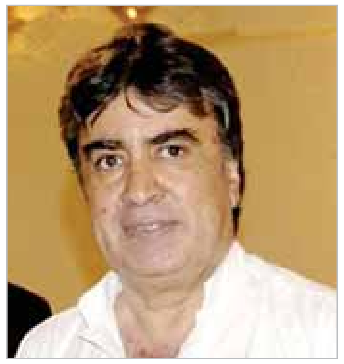
To cut a long story short, fiscal discipline and effort, should be awarded in the NFC awards. This is the model that India employs and we can learn from it to improve our own framework. The provincial share in the tax revenue is seven percent, and the 7th NFC stated a commitment to improve tax generation, especially on agriculture and real estate. It has failed to do so. Now, there must be incentives to ensure a better, more holistic and more streamlined horizontal criteria.

Do you think there is a need for a criteria based provincial finance commission award (PFC) on the pattern of the NFC?

First and foremost, funds must be provided to local governments, because they are at a very real risk of starving out before they even take shape. Elections have already happened in the two smaller provinces, and the need of the hour is to revert to the Musharraf order of 2006. Under this step, 1/6th of the sales tax must revert to the local government. Without this mandatory transfer, the local governments will simply not survive. This is step one. All other considerations, including PFCs, are second.

Do you think the NFC process should cover the three administrative regions (FATA, GB, AJK)? Why or why not?

From a provincial standpoint, the inclusion of these three regions in the NFC does not present a favourable situation. The inclusion of these regions will mean that the provincial allocation of the 57.5 percent of the vertical share will have to be further divided to include the three new regions.



Dr. Jehanzeb Jamaldini

Senator - Balochistan

Was the 7th NFC award adequate (in terms of provincial share) for the socio-economic development of the province?

Unfortunately, the passing of the 7th NFC award did not bring about the expected socio economic reforms in the provinces. Balochistan being the most affected and deprived province, suffered most by being the recipient with the least amount of share allocated. Punjab was the major beneficiary, although it reflected its image as being otherwise, with Sindh and Balochistan following after.

According to the distribution formula, the allocation of funds was 10.3 percent poverty based and five percent revenue based. This gave an edge to Punjab and Sindh who claimed that poverty levels were highest in them.

In revenue generation, all three provinces were allocated five percent share in federal funds, while Balochistan received none.

The case for Balochistan's share in the 7th NFC was weak and the representatives were unable to defend it effectively enough to yield beneficial results. Though the province covers 43.6 percent of the country area, yet the distribution of funds narrates a different story altogether.

Do you think the divisible pool should be broadened? If yes, what are the options?

There is a dire need for enhancing the divisible pool if any hope is to be expected in the future. If the current allocation criteria is maintained, little can be done to improve education, health and other sectors in the province. The solution lies in the federation reducing its share and reallocating it towards the provinces for a better management of issues by the provincial governments.

Q) What changes would you like for the 8th NFC in terms of the vertical and horizontal distribution criteria of the divisible pool?

The 8th NFC needs to massively amend and improve the present vertical and horizontal criteria.

The distribution of funds should be made on the basis of area. Allocation of funds on the basis of poverty should be reduced from 10.3 to three percent whilst area should be 10 percent.

One must not forget the example that history quotes, when Pakistan lost East Pakistan as they were not allocated share on the basis of area. Balochistan today, has similar demands. The Bureaucracy must stop exploiting the rest for their vested interests and work together in not letting history repeat itself.

say that again

"...the Bureaucracy must stop exploiting the rest for their vested interests and work together in not letting history repeat itself."

Don't you think there is a need for a criteria based provincial finance commission award (PFC) on the pattern of the NFC? Has your province done anything in this regard?

Balochistan's contribution to the national exchequer is significant. Projects such as Saindak, Rekodig and Chamalang among others, create a huge chunk of amount for the national kitty. The Sui area has been supplying the country with natural gas. It is high time that the federation realizes the significance of the province and develops a PFC award.

Do you think the NFC process should cover the three administrative regions (FATA, GB, AJK)? Why or why not?

The Balochistan National Party (BNP) believes that no area in Pakistan should be deprived of development and funds. Therefore, the NFC should indeed cover these three administrative regions in order to boost their socioeconomic conditions.

Muzaffar Said

Finance Minister - Khyber Pakhtunkhwa

Was the vertical and horizontal distribution criteria adequate? What adjustments are needed?

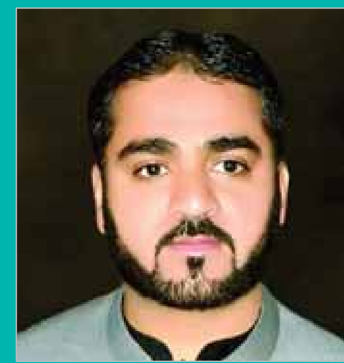
No, the vertical and horizontal distribution criteria was not adequate. The vertical share between the federation and the provinces needs to be revisited in view of the 18th amendment. The share of the provinces should be increased to 80 percent and that of the Center decreased to 20 percent. The federal divisible pool should also be broadened. Currently, income tax, custom duties and general sales tax has been included in the divisible pool while several items have been neglected. All these items should be made a part of the divisible pool. Recently, the federal government announced plans of including FATA, Gilgit-Baltistan and Azad Kashmir into the NFC process. These regions are already administered by the federal government and hence, they should have funds allocated from its share. They should not be deemed equal to the federating units to inflict further cut on the share of the provinces in the NFC. Owing to major losses incurred due to terrorism, Khyber Pakhtunkhwa's current share of one percent for damages caused by terrorism, needs to be increased to at least three percent.

Khyber Pakhtunkhwa's share in the net-hydel profit also needs to be uncapped via the NFC. The share was capped in 1991 at Rupees six billion. With the increase in the currency value of the dollar, this share should increase simultaneously. The province is also attributed minimum share in revenue collection, though immense contributions in import emerge from Khyber Pakhtunkhwa. The collection of all revenues takes place at the Karachi Port when consumers belong to our province as well. Either a proportionate share in custom duties should be given to us or we should be allowed to collect the duties at the entry points of our province. Why should these duties on goods meant for our province be collected in Karachi? This would be one method of increasing our share in the revenue collection.

Crude oil is also produced in large quantities in the province. The total oil production in the country amounts to 80,000 barrels of which Khyber Pakhtunkhwa produces half. The implementation of excise duty on crude oil was a suggestion we put forth. There needs to be judicious distribution of the Public Sector Development Programme (PSDP) as well. Our province has suffered complete neglect in the PSDP and funds for approved projects have not been released either.

We have also demanded special grants for the province for energy projects. Energy is a major need of the country and Khyber Pakhtunkhwa is an energy producing hub. In order to utilize the province's energy producing capacities and help overcome the country's energy crisis, we should be encouraged to initiate energy projects.

Finally, changes in horizontal distribution criteria are also required. The share for distribution on the basis of population should be decreased from the present 82 percent. A new head of 'Lag in Infrastructure/Investment' should be introduced under which at least 10 percent share should be specified. Likewise, 'Income Difference' should also be introduced along with the 'Poverty and Backwardness' agenda and the share for it should be fixed at 15 percent. The need is for an immediate holding of census to redraw the ratio of population.



Mir Khalid Langove

Advisor to Chief Minister on Finance
Balochistan

In the 7th NFC award, was the vertical and horizontal distribution criteria adequate? What adjustments are needed?

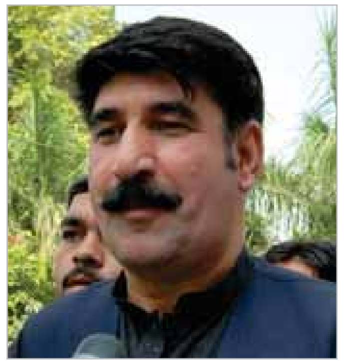
While the 7th NFC proved beneficial for Balochistan in terms of funds allocation, the province has always been urging for a shift in the distribution formula owing to several issues that have plagued the province.

The 8th NFC appears to be in the process of finalization, however, no consensus has been reached by the members of the commission as yet.

According to the 7th NFC, the distribution formula was based largely on population, standing at 82 percent, whilst other factors of poverty, revenue etc. just constituted 18 percent of the formula. This is unfair, especially because Balochistan occupies 43.6 percent of the country area and has to bear huge costs of infrastructure along with the provision of other facilities when compared to the rest of the country. Furthermore, according to the latest report of the Benazir Income Support Programme, Balochistan harbours the highest rate of poverty. If we recall, Khyber Pakhtunkhwa was also allotted additional funds for its acute poverty level in the 7th NFC. Based on these two factors, Balochistan should be allotted an increase in the allocation of funds, from 9.09 to 20 percent. In addition, Balochistan should also be attributed a 'protection of projection' in the 8th NFC as it was in the 7th NFC. In light of the above, the province demands a review of the NFC award formula and suggests that the federation should decrease its share and instead, distribute more to the provinces.

Ch. Muhammad Berjees Tahir

Federal Minister - Kashmir affairs and Gilgit Baltistan



Akhunzada Chitan

Central leader of FATA joint political parties and member of FATA reforms committee

Do you think the NFC process should cover the three administrative regions (FATA, GB, AJK)? Why or why not?

The basic framework for the distribution of revenues between the federation and the provinces is governed by part VI chapter 1, of the Constitution of Pakistan. The establishment of the National Finance Commission (NFC) is outlined in Article 160, according to which the NFC has to make the following periodic recommendations to the President:

a. The distribution ratio between the federation and the provinces of the net proceeds of the taxes mentioned in clause (3);
b. The making of grants-in-aid by the federal government to the provincial governments;
c. The exercise by the federal Government and the provincial governments of the borrowing powers, conferred by the Constitution; and
d. Any other matter relating to finance referred to the Commission by the President.

Gilgit Baltistan (GB) is a part of Kashmir and the Kashmir issue remains unresolved till date, pending before the United Nations since the past several decades. Although it would be extremely beneficial to extend the NFC to GB, but until the Kashmir issue is resolved, doing this would be a complicated matter. Additionally, a constitutional amendment would be required for such a step to take effect, in order to avoid a violation of the law.

As for FATA, the NFC can be extended to the region once it is allocated the status of a constitutional province. Once this has taken effect, a tax system needs to be introduced in the region.

Despite being the most deprived region in the country, FATA bears no representation in the NFC and this is one of the major reasons for the huge prevalence of poverty in the area. For a long time, the financial needs of the region have been ignored, resulting in alarming situations in the region, including terrorism, unstable law and order situation and a sense of deprivation among the community. Despite the fact that local body elections are the need of the hour, yet they are being held throughout the country except for the area that requires them the most. Moreover, FATA has not been granted a right of legislation and any legislations passed in the parliament are not applicable to the region. All these issues are being flouted as the media is not showcasing them. In fact, the media is also not free in FATA and reporters/journalists have to acquire special permissions from the military and civil officials before they can enter the region. How will the situation improve in the region when FATA voices are not being heard?

The region also faces problems of funds, both national or international, reaching tribesmen at the grass root level. The officials responsible for funds distribution absorb the funds within themselves at times, as a result of which little or no funds actually reach the ones for whom they are meant. There is a need for elected councilors to be trained and engaged so that there is a fair distribution of funds. The funds are meant for the local community and its development and hence should rightfully reach them.

Another major issue in FATA are the Temporary Displaced People (TDPs). This phenomena has severely impacted the infrastructure and given birth to issues of rehabilitation. Currently, investigation is also underway for the embezzlement fraud regarding the funds for the TDPs.

FATA should be represented in the NFC. The region does not demand a 'special' status. In fact, it demands to be treated like other parts of Pakistan, being given the same law and similar rights. The Metro bus project has an investment worth seven billion rupees and in comparison, the total budget for FATA is 1.7 billion rupees. The struggle for representation in the NFC is ongoing. There has also been a recommendation from all political parties in FATA and tribal elders, that FATA should be given a council synonymous to the one that Gilgit Baltistan has, that holds the power of legislation. The council can then decide whether to merge in Khyber Pakhtunkhwa or work as an independent province.

Interview

say that again

"...the vertical distribution criteria needs to be revisited now with an objective to increase the share of the provinces."

Sikandar Khan Sherpao

Provincial President and parliamentary leader of Qaumi Watan Party Khyber Pakhtunkhwa Assembly

Was the 7th NFC award adequate (in terms of provincial share) for the socio-economic development of the province?

One major change brought about by the 7th NFC was the change in the formula for horizontal distribution. Prior to this, distribution was solely based on population, which made Punjab the major beneficiary. However, the 7th NFC redefined that formula, according to which, resources were distributed on the basis of backwardness, revenue collection and inverse population density, along with population. This was indeed a positive change.

The 18th amendment was ready to be enacted by the time the 7th NFC was announced. The 18th amendment was going to devolve several departments to the provinces and thus the share of the provinces should have been increased. I still believe that the share needs to be increased. History is witness to the fact that the ratio of vertical distribution between the provinces and the federation was 80:20 percent respectively. It was in 1996, when a caretaker government reversed the process to increase the share of the federation and decrease that of the provinces. This was not fair. The vertical distribution criteria needs to be revisited now with an objective to increase the share of the provinces.

Do you think the divisible pool should be broadened? If yes, what are the options?

The federal divisible pool lacks several agendas that should be made a part of it. One such example is the housing of foreign aid kept within their domain by the federal government.

What changes would you like for the 8th NFC in terms of the vertical and horizontal distribution criteria of the divisible pool?

There should be an increase in the share of the provinces in the vertical distribution criteria. For the horizontal distribution criteria, there is a dire need to reduce the dependence of population, with the introduction of special incentives for energy producing provinces such as Khyber Pakhtunkhwa. Such incentives are important as energy is the basis for a strong economy.

Do you think there is a need for a criteria based provincial finance commission award (PFC) on the pattern of the NFC? Has your province done anything in this regard?

I am a strong advocate of the fact that there should be a PFC. This is integral to ensure the fair distribution of resources among various districts. However, the present marks a lack of homework in this regard, although the Local Government Act 2014 does mention the presence of a PFC. However, words have not taken any action as yet. The past has seen a neglect in the distribution of resources and development funds for some provinces. Had there been a judicious distribution of funds, the voice for a separate province in some districts, would not have arose.

Do you think the NFC process should cover the three administrative regions (FATA, GB, AJK)? Why or why not?

The current NFC will face a major issue in this regard. The federation may use this reason to enhance its share. However, if the federation really desires for a fair distribution of resources, then these three regions should be made part of the NFC, with their funds being provided from the share of the federation and not that of the provinces.

say that again

"...devolution on paper does not directly and simply translate onto devolution in practice."

Saleem Mandviwalla

Provincial nominee for NFC - Sindh

Was the 7th NFC award adequate (in terms of provincial share) for the socio-economic development of the province?

It is not adequate and a lot of issues are not addressed. Under the 18th amendment, certain chapters have been devolved into the provinces, but the budget has not been allocated accordingly. The vertical share has to be adjusted to reflect the devolution; there should have at least been a roadmap. Devolution on paper does not directly and simply translate onto devolution in practice.

Do you think the divisible pool should be broadened? If yes, what are the options?

The government has kept many taxes as levies and they are not included in the divisible pool. Constitutionally, only taxes are part of the divisible pool. Levies reduce the pool and it can subjectively create issues. For example, as far as petroleum is concerned, that has always remained a levy, but in my opinion it is a tax. Additionally, revenue collection is done by provinces over and above their targets, and that is never credited properly.

What needs to happen is a broadening that will cover many aspects and definitions of tax collection and bring reform into how the entire system is structured. No system in the world can operate without evolution; this too, must evolve.

What changes would you like for the 8th NFC in terms of the vertical and horizontal distribution criteria of the divisible pool?

Education and health have been devolved, but the percentages have not been changed, which begs the question: how do provinces create this additional revenue to properly fund and deal with devolved subjects?

The 7th NFC award should have been discussed again, after the 18th amendment was passed, to ensure provinces received proper shares and that the percentages accounted for the amendment changes. This was not foreseen and not tackled properly.

Finally, the bulk of the criteria are population-based, which is pedestrian at best. Several socio-economic factors are not considered, and this simplistic criterion makes it unfair for provinces like Balochistan. Dr. Ishrat's comments from a few days ago about how tax effort should be added as a fifth criterion should also be considered.

Don't you think there is a need for a criteria based provincial finance commission award (PFC) on the pattern of the NFC? Has your province done anything in this regard?

That can also be looked at and certainly is a good idea. But it has to be contextual; you cannot base it off of the same formula as the NFC. Practically, it will be difficult and has to be very carefully formulated, but it is a good idea in principle. Most significantly, like the NFC, it cannot be based on population.

Do you think the NFC process should cover the three administrative regions (FATA, GB, AJK)? Why or why?

Yes it should as they are administrative units of Pakistan. But you will need to change the administrative structures of these areas before they can be brought into the fold.

say that again

"...we want our rights. We do not want to usurp others' rights, but we will not allow others to take away our share either. "

Prof. M Ibrahim Khan

Provincial nominee for NFC - Khyber Pakhtunkhwa

Was the 7th NFC award adequate (in terms of provincial share) for the socio-economic development of the province?

The people of Khyber Pakhtunkhwa suffer from a sense of deprivation built on the fact that the province was not given its due share in the 7th NFC award. After great struggle, the previous NFC attributed one percent of the federal divisible pool for terrorism before distribution. But even that one percent share has not been provided to the province as yet.

The current situation is much aggravated owing to the damages caused by the war against terrorism. In a scenario where the province is hosting hundreds of thousands of temporarily displaced people from the Federally Administered Tribal Areas (FATA), one percent share is indeed very less and needs to be increased to at least three percent. We previously insisted that the province should be given its due share of the net-hydel profit. The amount that was capped at Rs. six billion needs to be uncapped.

The 10 percent annual increase in it as per the AGN Kazi Formula could not be made as well. In addition, owing to the delayed payment by WAPDA, the increase in the share of the province could not be given. There are reports that Punjab is not ready to sacrifice but we do not want sacrifice. We want our rights. We do not want to usurp others' rights, but we will not allow others to take away our share either.

Do you think the divisible pool should be broadened? If yes, what are the options?

Yes, I think it should be broadened and formal work in this regard has started. The finance commission has started its proceedings. However, certain things such as the revenue generated from oil, gas and excise duties, are still not clear, when the terms of reference of the NFC clearly state that such duties and other taxes may be specified by the president. This needs to be explained. There needs to be transparency in the oil and gas production data. The records should be made available to the finance commission. Once the provinces' royalties are extracted, the revenue earned should be made part of the divisible pool. Likewise, theft of oil from our oil fields needs to be controlled and held accountable for. The new taxes introduced by the federal government from time to time should be made part of the divisible pool. Also, the total quantum of the divisible pool should be made public.

What changes would you like for the 8th NFC in terms of the vertical and horizontal distribution criteria of the divisible pool?

The share of the provinces should be increased. There was a time when the share of the federation was 20 percent and that of the provinces was 80 percent. In 1996, the Center's share was increased to 62.5 percent and that of provinces to 37.5 percent. In 2006 the federation's share was fixed at 55 percent and that of provinces at 45 percent. The current situation holds that the federation is getting 57.5 percent and provinces 42.5 percent. Post the 18th amendment, several departments were devolved to the provinces. Therefore, the share of the provinces in the federal divisible pool should be increased.

Don't you think there is a need for a criteria based provincial finance commission award (PFC) on the pattern of the NFC? Has your province done anything in this regard?

Currently, I do not possess accurate details regarding the matter but the province does have a provincial finance commission. To develop it on the framework of the NFC will be a complicated task for the reason that while the NFC clearly defines the federation and federating units, attaining a similar clarity of defining units will be an uphill task at the provincial level. Based on the formula that districts are considered as units, the distribution of funds will pose a problem with the presence of 26 districts in the province. However, a permanent body needs to be in place. But serious thinking and homework is needed for this to take effect.

Do you think the NFC process should cover the three administrative regions (FATA, GB, AJK)? Why or why not?

According to the current terms of reference, the point to make these regions a part of the process has been raised. In principle, we are ready that they should be covered in the NFC process. We are in favour of giving them their due share, but not at the cost of the provinces. They are part of the federation and the federal government should allot them funds from its share, considering that the federation receives a huge chunk from the divisible pool.

Mian Mehmood-ur-Rasheed

Leader of opposition - Punjab

say that again

"...the Baloch are our brethren and their grievances must be properly alleviated. It is necessary for all of us to move forward."

Was the 7th NFC award adequate (in terms of provincial share) for the socio-economic development of the province?

The 7th NFC awards were made with mutual cooperation and understanding between all the relevant stakeholders. The consensus was across the board and I believe the award was quite adequate for Punjab.

Do you think the divisible pool should be broadened? If yes, what are the options?

There are always means to broaden the pool and to improve the system, especially if there are serious grievances from one province or another. However, moving forward, any steps taken should be filtered through proper channels and mechanisms to have consensus on the issue.

What changes would you like for the 8th NFC in terms of the vertical and horizontal distribution criteria of the divisible pool?

There is no harm in looking at things anew. I will reiterate that consensus and mutual understanding is very important. This perception of neglect that certain provinces face, needs to be addressed properly. The Baloch are our brethren and their grievances must be properly alleviated. It is necessary for all of us to move forward.

Don't you think there is a need for a criteria based provincial finance commission award (PFC) on the pattern of the NFC? Has your province done anything in this regard?

As far as I know, no work has been done and despite demands from the opposition, I get the sense that the government is not serious about this issue. Our rulers disproportionately allocate and spend funds, where one constituency or area gets a ton of development, while another is systematically neglected. This is not fair. Local elections and a transparent PFC is absolutely necessary. The current system of block allocation without transparency, accountability and looking at the local socio-economic context and other conditions can no longer stand.

Do you think the NFC process should cover the three administrative regions (FATA, GB, AJK)? Why or why not?

The constitution does not consider these areas provinces. They are not an independent unit. But keeping their needs in mind, the federal government should make the award so that it meets their needs under the predetermined federal budget.

Sakib Sherani

Senior Economic Advisor for several public and private institutions in Pakistan

say that again

"...there needs to be a focus on the distribution of both power and resources from the provincial capital to the remaining districts within the provinces."

Was the 7th NFC award adequate (in terms of provincial share) for the socio-economic development of the provinces?

Both vertical and horizontal frameworks saw huge breakthroughs in the 7th NFC, but it fared inadequate in its ability to deal with certain things. For example, the provinces were meant to adopt the revenue mobilization measures. These were discussed briefly on the sidelines, but never really institutionalized when they should have been.

Do you think the divisible pool should be broadened? If yes, what are the options?

Although the pool seems adequate, at times, the center resorts to certain measures that fall outside the realm of the divisible pool. An example is the Gas Infrastructure Development Cess (GIDC), a blatant move by the center to occupy a pool of money that rightfully belongs to the provinces, outside of the divisible pool. This really undermines the spirit of the NFC.

What changes would you like for the 8th NFC in terms of the vertical and horizontal distribution criteria of the divisible pool?

The idea is to shift the focus away from allocation and transfers to spending outcomes. The allocation seems adequate, the mechanisms seem sufficient. However, the implementation and monitoring framework is missing. Budgeting outcomes should be made a part of the criteria.

Do you think there is a need for a criteria based provincial finance commission award (PFC) on the pattern of the NFC?

I believe that is absolutely important. The provinces have usurped all rights whereas the local governments need to be made functional. There needs to be a focus on the distribution of both power and resources from the provincial capital to the remaining districts within the provinces.

Do you think the NFC process should cover the three administrative regions (FATA, GB, AJK)? Why or why not?

Conceptually and in the spirit of the constitution, these areas should possess autonomy and not be controlled by the center, both democratically and fiscally. That should be the eventual goal. However, as it stands, constitutionally this cannot happen.

Do you think the NFC process should cover the three administrative regions (FATA, GB, AJK)? Why or why not?

The Balochistan National Party (BNP) believes that no area in Pakistan should be deprived of development and funds. Therefore, the NFC should indeed cover these three administrative regions in order to boost their socioeconomic conditions.

BALOCHISTAN

Do you think provinces have increased allocations for youth interventions after the 7th NFC award?

Mansoor Khosa

After the 7th NFC award, the share of tax revenue of the provinces was increased and funds were transferred from the federal government to the provinces. Post the NFC, the Balochistan government did introduce the 'Merit Award Scholarship' scheme, awarded to students who took positions in the Matric and FSC.

Sabeera Afzal

Even though the remainder of the provinces received adequate funds for youth uplift schemes, nothing of this effect happened in Balochistan. Events on the pattern of the 'One Young World' conference should be organized so as to motivate the youth.

Fatima Iqbal Khan

The Balochistan government has not increased funds post the 7th NFC. The provincial youth policy has not been finalized till date. There is a huge amount of disappointment within the youth owing to the neglect of the government.

Nazeer Durrani

I have not seen any special measures taken. Recently, a 'Sports and Culture Festival' was organized by the Balochistan government that primarily served the interests of the coalition government. However, I can safely say that this was biased too.

SINDH

Do you think provinces have increased allocations for youth interventions after the 7th NFC award?

Waris Nawaz

After the 7th NFC Award, both the federal government and provinces have failed to increase allocations for youth interventions. Rising debt servicing and defense and security related expenditures have further reduced financial space for the federation. Despite being cash-strapped the PML-N government is pursuing Nawaz Sharif's pet mega projects. It has shown increasing appetite for foreign credit and loans borrowing Rs. 611 billion just in 40 days from the State Bank of Pakistan, against Rs. 507 billion for the full year 2012-13.

Sadia Khokhar

I think the youth has been highly neglected as any other area of human development in Pakistan. They can contribute in the development of the country with proper education, skills training and motivation. Yet, the youth is not properly trained and educated to materialize the potential they have due to ignorance of the government in this sector.

Munira Mujtaba

In our endeavor to make Pakistan a democracy, the 7th NFC award is definitely a notable achievement. However the new fiscal budget has still not taken the youth factor into account. The budget allocation towards education and employment is not enough. Pakistan remains a gerontocracy that ignores the potential role of the youth. We need to improve the quality and quantity of education in every province. Moreover, the education budget should incorporate mechanisms that enable the young populace to find viable jobs after education.

Shayan Marsia

After the 7th NFC, we did see a miraculously elected PTI in KPK allocating a mere 27.1 percent of their budget towards education followed by 26.2 percent of Punjab's. Same is the case for employment opportunities, as after the PML-N getting elected, Pakistan has seen an influx of foreign investors and that surely is a step towards a better Pakistan for youth. However, the budget allocated towards federal education was seen decreasing after 2011 due to our politicians' incompatibility to keep promises. The only thing Pakistan needs right now is better financial accountability.

Youth Voices

PUNJAB

Do you think provinces have increased allocations for youth interventions after the 7th NFC award?

Shezadi Arshad

The last NFC award has brought some profound changes in the resource distribution formula. The financial implications of this award for the federal and provincial governments are vast and long-lasting with a substantial increase in transfer. However, youth expectations did not materialize due to many external and internal factors that affected the federal tax collection.

Mudasar Nazar

Post the NFC award, a lot of work is done in this direction but larger efforts are required for meaningful engagement. The government needs to be more effectively involved in the career development process, develop skills, and build awareness of options for future employment, careers, and professional development.

Maryam Gul

If they have, I am not sure that manifests itself in the minds of youth. Most of the activities and opportunities we have are generated by the educational institutions we are a part of, or the communities we hail from. The NFC award may have given Punjab the lion's share, but it doesn't seem to translate well to youth interventions in the province.

Umair Javed

I think Punjab has done some good work by investing in youth festivals and the sports festival they put together last year. I am not sure whether that is enough, as I am not privy to how much money should be or is spent on youth interventions, but I do feel there is progress.

Youth Voices

AZAD JAMMU AND KASHMIR

Do you think provinces have increased allocations for youth interventions after the 7th NFC award?

Sundas Qureshi

It would be great if AJK become a part of the NFC after which it would receive funds that could be allocated to the youth. These funds could be used to launch different programs to eradicate employment issues in the youth.

Raja Wasim

The AJK should be part of the NFC. The Kashmir government should utilize the funds obtained from the NFC to establish technical training centers for youth. This will eradicate the pest of unemployment faced by the youth in the region.

Sumia Sajid

If AJK is made part of the NFC and receives funds, then the region will prosper. Unemployment is the biggest problem in the region. The establishment of vocational centers along with introducing internship and educational opportunities will encourage the youth to reside in the region thereby preventing them from shifting to other regions and countries in search of jobs.

Kashif Naveed

There is so much uncertainty regarding employment in the region. For this reason the AJK should be made part of the NFC so that the funds can help launch technical training programs for the youth which can equip them with skills to start their own businesses.

Youth Voices

GILGIT BALTISTAN

Do you think provinces have increased allocations for youth interventions after the 7th NFC award?

Noor Muhammad

The youth in GB has been deprived of any residual benefits that might have provided them opportunities for growth. It is high time for the federal government to prioritize the needs of the youth of the violence-prone GB and FATA region, and actively benefit them by taking robust constitutional, legal and strategic measures.

Saira Imtiaz

There has been some investment in the youth post the 7th NFC, however very minor. The Prime Minster's youth loan scheme is a good initiative as it is not restricted to any province. Having said that, I am hopeful that more incentives for the youth will emerge in GB.

Irfan Nazar

In Punjab, several programs for the youth have been launched such as the laptop scheme etc. However, neither the government nor the civil society has played any part in benefitting the youth in GB. Hence, I am not sure if any law can change the indifferent attitude of the government.

DEVELOPMENT ADVOCATE

PAKISTAN