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**Fiscal Federalism in Pakistan:
The 7th National Finance Commission
Award and Its Implications**

Usman Mustafa

Pakistan Institute of Development Economics, Islamabad

**PAKISTAN INSTITUTE OF DEVELOPMENT ECONOMICS
ISLAMABAD**

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Pakistan Institute of Development Economics
Islamabad, Pakistan

E-mail: publications@pide.org.pk
Website: <http://www.pide.org.pk>
Fax: +92-51-9248065

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ABSTRACT

Pakistan is a federal country. Distribution of resources has a profound impact on income, development, backwardness, and poverty. The paper briefly discusses the federation, its needs and importance in general. The National Finance Commission (NFC) award is considered as a step towards federalism. In the historical perspective of the NFC awards, the salient features of the recent 7th NFC award, the weightings, and the criteria adopted in the national as well as provincial Finance Commission awards are described. Major issues faced by the Provincial as well as Federal governments regarding the award and its implementation are discussed in detail. Good practice lessons to be derived from it are also pointed out. The conclusion includes recommendations for a strong federation and effective use of the NFC award.

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1. INTRODUCTION

Federalism is a relationship between different levels of governmental. It is a form of political organisation that connects separate states or other polities within an overarching political system. The bond allows each to maintain its own fundamental political integrity and honour. This is achieved by federal systems by involving that basic policies be prepared and implemented through some form of negotiation, so that all the members can share in building and executing decisions. The fundamental political principles that sentient federal systems emphasise the dominance of bargaining and negotiated coordination among several power centres; they stress the qualities of detached power centres as a means for safeguarding individual and local liberties [Britannica (2010)]. A federal form of government has a multi-order arrangement, where all of these have some independent as well as divided responsibilities. It represents either a “coming together” or a “holding together” of constituents geographic units to capture gains of the greatness and smallness of states in a globalised world where there are very small and large issues emerges and discussed by large and small nations-states [Shah (2006, 2007)].

Federation is imperative and centre of the encounters over public policy. It can determine the winners and loser at different stages of government i.e., the local, provincial/state and national levels. The person or the central body will make the vital decisions about the governance and federation in people’s day to day life. It defined the division of powers between the federal government and the state governments; it has been a central and evolving feature of a system of government. Federalism means that citizens living in different parts of the country will be treated differently, not only in spending programmes, but also in the legal system e.g., criminal law (state and national); economic regulation (local, state, national); education (very little federal control); natural resources, health, etc. Federalism also means that states are allowed to elect their own leaders, raise their own revenues and enact their policies. In fiscal federalism responsibilities should be assigned on equity and equality principles, or that the command liable for a public policy should agree with the geographic coverage of the impact of these plans on households and relevant voters. Fiscal federalism has been sturdily influenced by the geo-political background in which it originated [Musgrave (1961); Olson (1969); Ahmad and Giorgio (2006)].

Federalism is increasingly become important in the world. Twenty-eight countries which are homes of 40 percent of the world’s population fall under

federal system. All most all democratic countries with very large areas and or population are federally administered. A number of countries embracing democratisation are becoming increasingly federal. The European Union has a number of federal characteristics. Federalism comes in many varieties and contexts. In federalism there should be at least two order of government, one for the whole country and other for the province or region. Each government has a direct electoral connection with its inhabitant. It must have a written constitution some parts of which cannot be altered by the federal government by alone [Anderson (2008)].

Fiscal Decentralisation comprises the financial aspects of devolution to regional and local government. Decentralisation can introduce a sense of popular ownership of government and bring about direct benefits like to enhanced efficiency of public goods provision, quality of government through democratic accountability and economic growth [Bahl (1999); Oates (1993); Vazquez and Mc Nab (2003) and WBI (2007)]. The pursuit of decentralisation is widespread in all part of the world for developed countries it is reorganisation of the government in order to provide public goods and services cost effectively in the “post-welfare state” era. For developing countries is to escape from the traps of ineffective and inefficient governance, macroeconomic instability, and inadequate economic growth. In the developing countries political pressure is also emerging from the people for democratisation. While for transitional countries it is a transition from system to market economy and democracy [Mustafa (2009a, 2009b)].

There is a continuous debate in the literature of fiscal decentralisation about its desirability, the positive side revealed that it increases efficiency, transparency and accountability with the objectives of economic stability, sustainable growth, public service provision equitably across people and jurisdictions, it limits the size of public sector, etc. [Akai and Sakata (2002); Brueckner (2006) and WBI (2007)]. While the other group disputed on it and argue that it inherently destabilise the economy, there is no significant relationship between fiscal decentralisation and public sector size. Even it associated with slower growth [Oates (1993); Thornton (2007); Xie, *et al.* (1999); Zhang and Zou (1998)]. The definition and implementation of fiscal decentralisation vary greatly across developing countries due to different in economic and political composition.

The state of Islamic Republic of Pakistan is a parliamentary federation comprising four provinces, Federally Administered Tribal Areas (FATA), Gilgit-Baltistan region, and a federal capital territory. Historically, the federalism in Pakistan consists of the colonial heritage as well as the two phases of pre-federalism (1947–71) and federalisation (1973 to onward). The first phase was characterised by centralisation of authority (one unit) and elimination of federal structure within West Pakistan. Whereas, in the second phase, federalism

rebound and steadily moved forward in the face of formidable from the centralist framework of national authority [Waseem (2010)].

The National Finance Commission (NFC) award is the distribution of financial resources among the provinces of Pakistan by the federal government on annual basis. Certain types of taxes collected in each province, latterly pooled and then redistributed according to the NFC formula. What taxes to include in the distribution pool and the distribution formula is a subject of debate. Taxes included in the pool are income taxes, general sales tax, wealth taxes, capital gains taxes, and custom duties.

NFC award is a step forward for decentralisation. Frequently, two arguments are mostly supported in favour of decentralisation. First, some proponents declare that decentralisation increases allocative efficiency by allowing larger differentiation in the provision of public goods and services. This is also famous as the preference-matching argument, reflecting the conviction that under local governments system people are more linked with their representative than the central government, they are better knowledgeable about the problems, issues and circumstances of the residents. In this way they know and ranked their preferences better. The second arguments put forward that decentralisation increases the accountability of government [Akramov and Khan (2008) and Shah (2006)]. Beside this decentralisation also provides greater opportunities for empowering and serving the poorest people through better supports the poverty reduction [Mustafa (2007) and Mustafa (2009a 2009b)].

NFC Award is a constitutional obligation. It is clearly indicated in the Article 160 of the "Constitution of Islamic Republic of Pakistan, 1973" that it has been made mandatory for the government to compose NFC Award at an interval extending not more than 5 years for the amicable resource distribution among the federation and its respective units. Provinces then also re-distribute revenues among lower tiers of the government, through a revenue-sharing formula through PFC Awards. And this way, the state functions. The central government collected most of the revenues and then redistributed vertically between the federal and the provincial governments, and horizontally among the provinces. Provinces then also redistribute revenues among lower tiers of the government, through a revenue-sharing formula known as Provincial Finance Commission (PFC) [Ahmed, *et. al.* (2007)]. NFC Award is a step forward for fiscal federalism because it will result into equity, accountability, cost effectiveness and opportunities for empowering and serving the poorest people. Equitable and judicial distribution of resources has profound impact on the growth and development of any region, area or location. This affects their income level, backwardness, poverty and its alleviation. There must be a systematic method of distributing these resources.

Resource sharing between the federation and the federating units was started since the creation of Pakistan. Prior to independence, Niemeyer Award

(under the 1935 Act) was adopted to allocate resources among federal and provincial governments in the British India. After the formation of Pakistan, same award was followed although with some adjustment in railway budget, sharing of income and sales tax till March 30, 1952 [Pakistan (1991)]. All provinces of West Pakistan were declared one unit during 1955; these were considered as separate identities as of East Pakistan. Therefore, after the one unit there were only two units namely East and West Pakistan. Two awards were announced during that period for year 1961 and 1964. Resources were distributed only amongst these two units.

The first award which was presented by Mr ZA Bhutto government in 1974, under this award fewer taxes were included in the divisible pool which consisted of income tax, sales tax and export duty while the criterion used for resource redistribution was recommended to be population. Resources were vertically distributed at a fixed ratio of 20:80 among federal and provincial governments. Punjab's share increased from 56.50 percent (1970 Award) to 60.25 percent while the three other provinces suffered, with Sindh suffering the most because population being the sole criterion for distribution.

After almost 16 years of break, credit goes to the then government of Prime Minister Nawaz Sharif for the fourth NFC Award, in declaring a consensus NFC Award with some positive recommendations in April 1991. The 4th NFC Award significantly increased the volume of provincial shares in the revenue collected by federal government by around 18 percent as compared to 1974 Award. The 4th NFC Award was a significant move forward towards fiscal decentralisation by extending more financial autonomy to the provinces. Besides these in this award for the first time the provinces' right on net hydel profit, development surcharge on gas and excise duty on crude oil was admitted and amounts were relocated in the shape of straight transfers to the provinces.

One way of distributing the resources is formula-based which includes: (i) NFC, (ii) PFC, (iii) Federal to local, and (iv) Local to local. The other method is random transactions like development, special grants, executive, discretionary and parliamentarians' funds, etc. There are already six NFC awards were implemented [Jaffery and Sadaqat (2006)]. The 7th NFC award of Pakistan was agreed during the end of December 2009. It is imperative to know the major features, implications and impacts of the 7th NFC award under the federalism. Therefore, the paper will review the overtime NFC awards in the country with special reference to the 7th one. The paper consists of four parts including this introduction where federalism and brief introduction of the NFC award was discussed. The second part will discuss the salient features of the 7th NFC award and the weightings or formula used in the present NFC award. The steps taken for provincial equalisation in this award are also discussed. Although, the focus of the paper is NFC award but just to know how provinces distributed their resources, the Provincial Finance Commission (NFC) Awards formula and

Indian Finance Commission are also discussed for comparison and better understanding of awards in this section. The next section showed about major issues and implications of 7th NFC award and 18th amendment of the constitution of Pakistan. Before, describing the last and the final section which highlights the conclusion and recommendations, for practices to struggle some positive lessons are also described in the fourth section.

2. THE 7TH NFC AWARD AND ITS SALIENT FEATURES

The current 7th NFC Award has arrived after undergone different make over. Over time fiscal federalism has remained a rough road to ride in Pakistan. It is worth wise to note that out of a total of seven Commissions including the recent 7th Award, constituted after the 1973 Constitution, only four have come up with additional parameters to share out the resources with the federating units. The resource transfer paradigm has always been the most important fillet of controversy among the stakeholders. Financial resources are the major ingredient for development. Judicial and equitable distribution of resources is the fundamental to make up any beneath developed or under privileged area and to win confidence of federating units.

A less systematic approach has been adopted to decentralise the financial matters in Pakistan since the 6th NFC award. Over time, the divisible pool has been expanded due to heavy reliance on indirect taxes as well as improvement in the collection. Population is the sole distribution criteria, adopted in all NFC awards from the divisible pool. This has raised friction among the provinces, necessitating inclusion of other potential variables evolved from international best practices. In addition to that, absence of technical experts and permanency of the NFC is another impediment. The NFC is supposed to provide the framework for amicable distribution of resources between the federal and the provincial governments for the joint goal of development and prosperity.

Interestingly, if we look at the historic NFC award in the country, one do start wondering as to why Population has only been kept as the criteria for distribution of NFC award, while it was not consider among the provinces i.e. East Pakistan and West Pakistan. East Pakistan before 1971 was more populous then West Pakistan but it was still discriminated by the West Pakistan. At that time, the distribution of resources based on population was not at all raised by anybody since it would have resulted in larger share of East Pakistan from the Federal Divisible Pool or in Federal Budget for East and West Pakistan. There are many reasons that can be attributed to the 1971 incident of Bangladesh creation but one of the major is the "Distribution of Resources". This infuriated the Bangladeshi people and contributed towards their final revolt against the Government owned by West Pakistan.

The demographic changes take place according to the economic situation. People from around the world started moving towards Middle East and Malaysia

when it was economically developed. Even within a country from underdeveloped to developed areas. Population migration took place in China from less developed Western China towards more Developed Eastern China. Therefore, the distribution of population can never ever be the sole criteria of distribution of resources from the central pool. However, in Pakistan, no government was able to change it. That brings us towards the controversies facing the NFC Award and again threatening the stake of federalism in Pakistan.

The NFC is believed to offer the structure for amicable allocation of resources among all stakeholders i.e. the federal and the provincial governments for the joint objective of development and prosperity. There is a need for addition of other factors like infrastructure, poverty, backwardness, revenue generation, environment, etc. to be taken into description for equitable and judicial distribution of resource. Various criteria are used for resource distribution from central to provincial governments in India. Therefore, it is imperative to devise an NFC award formula keeping into different aspects of development. The matter of resource sharing among federal and provincial governments never proved to be easy and is a much difficult issue. Historically, the problem of resource distribution is never taken seriously and it is also very difficult because consensus of all stakeholders is mandatory for developing any new NFC awarding formula. That is why new award cannot be announced because the four provinces have failed to develop consent.

In the 7th NFC award reconciliation, Sindh, Balochistan and Khyber Pakhtunkhwa (KKP) want multiple criteria, whereas, Punjab interest was in the sole population criteria. Sindh also want substantial share for revenue (sale tax, services collection). Most tax receipts are collected from Punjab and Sindh. Almost all custom duties are collected at the Port of Karachi. KPK also wants poverty, while Balochistan being the largest and scattered populous province emphasises the inverse population density in the award.

In order to foster national unity and stabilise the democratic system of government in Pakistan, a great and plausible decision was agreed upon on 30th December 2009 at Gawadar, Balochistan by the representatives of all provinces duly signed by Syed Yousaf Raza Gillani, the Prime Minister in regard to the 7th NFC award after 19 years of controversial. The NFC in a record period of four months (August 2009 to December 2009) amicably solved long standing issues and brought a mutually agreed award. No vote of dissident came at a time of approval of the 7th award. Credit goes to democracy; new NFC Award was a reflection of sacrifices and accommodation by big and small provinces of the country. The new Award would come into effect from the next financial year (2010-11), over the distribution of financial resources, among the provinces of Pakistan, by the federal government on annual basis.

In the 7th NFC award the demands of Balochistan, Sindh and KPK were accepted. It is based on a multifactor formula beside population, poverty,

underdevelopment, and inverse population density criteria were also considered. Federation sacrificed more than 10 percent of its share to provinces. From Federation about Rs 225 billion more were granted to provinces during 2010-11 budget [Pakistan (2010)]. The 7th NFC award has introduced a significant new measurement for resource sharing to the fulfilment of all units of a federation. All stakeholders have also agreed to cut collection charges to just 1 percent from the existing level of 5 percent which will boost the real transfers to the provinces from the divisible pool. The provincial share of the divisible pool would increase from 47.5 percent to 56 percent in the first year of NFC award FY 2010-10 and 57.5 percent in the remaining years of the Award (Table 1). It is indeed the first NFC award with a new national spirit to accommodate the demands of smaller units of federation. Province wise distribution of population and inverse population density is estimated on the base of data obtained Pakistan Statistical Year Book 2008 published by Federal Bureau of Statistics, Islamabad [Pakistan (2009)].

Table 1

*Percentage Share of 7th NFC Awards in the Divisible Pool and Percentage Reduction or Increase of Share and Additional Budget**

Province	% Share in Divisible Pool under 7th NFC	% Reduction in Share	Additional Budget %
Punjab	51.74	1.27	48
Sindh	24.55	0.39	61
KPK	14.62	0.26	79
Balochistan	9.09	(+ 1.82%)	175

* The provincial share of the divisible pool would increase from 47.5 percent to 56 percent in the first year of the NFC Award, FY 2010-10, and 57.5 percent in the remaining years of the Award.

In the new NFC award formula, the Federation and the provinces of Punjab, Sindh and Khyber Pakhtunkhwa have accepted the special needs of Balochistan and agreed to provide Balochistan Rs 83 billion (9.09 percent) of the provincial pool in the first year of the Award. The 7th NFC Award has given 82 percent weightage to population, poverty 10.3 percent, revenue collection 5 percent (2.5 percent revenue generation, 2.5 percent revenue collection); while the area will get 2.7 percent share. It is a good omen that after considering special needs of Balochistan and application of the multiple indicators, Punjab province would get 51.74 percent, Sindh 24.55 percent, Khyber Pakhtunkhwa 14.62 percent and Balochistan 9.09 percent. In the new Award, Punjab has given up 1.27 percent, Sindh 0.39 percent and Khyber Pakhtunkhwa 0.26 percent; while the province of Balochistan has gained 1.82 percent. Federation sacrificed more than 10 percent of its share to provinces.

Due to this the share of the distribution is increased which benefit all provinces, the largest gainer from this award is Balochistan with an additional budget of 175 percent, while other provinces KPK, Sindh and Punjab also got additional budget of 79, 61, and 48 percent, respectively (Table 1). Revenue sharing indicators weight and share by provinces is presented in Table 2.

Table 2

Revenue Sharing Formula for the 7th NFC Award, 2009

Indicators	Weight	Punjab	Sindh	KPK	Balochistan
Population Share**	82.0	57.36	23.71	13.82	5.11
Poverty/Backwardness	10.3	23.16	23.41	27.82	25.61
Revenue Generation/Collection	5.0	44.0	50.0	5.0	1.0
Inverse Population Density**	2.7	4.34	7.21	6.54	81.92
Total Share	100	51.74	24.55	14.62	9.09

* Khyber Pakhtunkhwa. ** Pakistan (2009).

Presently, provinces were getting Rs 550 billion, while after this award they will get more than Rs 850 billion next year and in next five years the additional amount will grow to Rs 1250 billion. One of the great achievements of this Award is that it removed disparities regarding revenue collection and generation from Sindh and Punjab, hydel royalties from Khyber Pakhtunkhwa and gas development surcharge (GDS) from Balochistan. In order to recognise the role of KPK as a front line province in war against terror the province has been given 1 percent of divisible pool, the balance amount of the proceeds of divisible pool taxes, 56 percent has been assigned to provinces during FY 2010-11, and 57.5 percent from FY 2011-12 onwards. Furthermore, the collection charges have been reduced to 1 percent from 5 percent by Federation. Inter-Province distribution under various NFC Awards is presented at Table 3.

It is interested to know the formula adopted for PFC awards. There is no similar formula adopted by provinces. The only weighting indicator which is common among all provinces is population but its weight is different. Punjab grants maximum weight of 75 percent to population in its award while all other provinces give 50 percent to it. Backwardness and poverty is not considered in Balochistan, whereas, it is given 25, 17.5, and 10 percent weight by KPK, Sindh, and Punjab provinces, respectively. Balochistan consider only population and area and grant equal share in it award. Tax efforts by district are granted 7.5 and 5 percent share by Sindh and Punjab provinces. In order to develop under developed districts KPK and Punjab grant 25 and 5 percent share, respectively. Transitional incentive is consider only by Sindh and granted substantial share of 25 percent (Table 4).

Table 3

Inter-Province Distribution under Various NFC Awards (%)

Federation:						
Year	Provinces	Punjab	Sindh	KPK	Balochistan	Total
1974	20:80	60.25	22.50	13.39	3.86	100
1979	20:80	57.97	23.34	13.39	5.30	100
1985	Interim award	Interim award	Interim award	Interim award	Interim award	–
1990	20:80	57.87	23.29	13.54	5.30	100
1996	62.5:37.5	57.88	23.28	13.54	5.30	100
2000 Not Awarded	Interim award	Interim award	Interim award	Interim award	Interim award	–
2006	45:55	56.07	25.67	13.14	5.13	100
2009	44:56 ⁺	51.74	24.55	14.62	9.09	100

⁺ The provincial share of the divisible pool would increase from 47.5 percent to 56 percent in the first year of NFC award FY 2010-10 and 57.5 percent in the remaining years of the Award.

Table 4

Weightings Used in Horizontal Distribution in the 7th NFC Awards at the National and Provincial Levels

Weightings	Pakistan	Punjab	Sindh	Balochistan	KPK*
Population	82	75	50	50	50
Backwardness /Poverty	10.3	10	17.5		25
Tax Effort	5	5	7.5		
Fiscal Austerity Area		5		50	
Inverse Population Density	2.7				
Development Incentive		5			25
Transitional Assistance			25		

The criteria used for financial distribution varies from region to region and country to country, it is not fixed and also varies over time. Population remains as one of the major indicator for distribution. Significant weight was given to income distribution in India but population weight is also given in it (Table 5). In 10th Indian Financial award (IFA) fiscal discipline was not given any weight while it was equally considered in their 11th and 12th awards. Similarly, index of infrastructure was considered in 12th IFC award. Therefore, there is no fix formula or indicators, the most importance thing is consensus among the states or all stake holders and adopting the fundamental principle of equity and equality.

Table 5

Weights Criteria under the 10th, 11th, and 12th Indian FC Awards (%)

Criteria	10th IFC	11th IFC	12th IFC ⁺
1. Population	20	10	25
2. Income Distance**	60	62.5	50
3. Area	5	7.5	10
4. Index of Infrastructure	5	5	–
5. Tax Effort	10	7.5	7.5
6. Fiscal Discipline	–	7.5	7.5

⁺ Effective April 01, 2005.

** $(Y_h - Y_i)P_i / S(Y_h - Y_i)P_i$, where Y_h , Y_i are per-capita State Domestic Product (SDP) of the highest and the i th income State and P_i population of i th State.

3. MAJOR ISSUES AND IMPLICATIONS OF THE 7TH NFC AWARD

This gesture of hope and sacrifice adopted in the 7th NFC Award will strengthen federation and realising the people that other provinces are equally caring about their development. Certainly, democracy is the best mantra of hope for the people. But there are number of issues and implication of the awards. Provinces are granted more resources and power but there is weak financial management and lack of accountability of the public sector. The revenue targets may not be met as envisaged. The provinces have poor revenue collection and mobilisation. The efficiency related issues are serious. Balochistan and KPK provinces lack capacity (knowledge, skill and experience under new system). Higher allocations mean more responsibility for the provinces but hardly anything is being done for capacity building of the provincial departments.

When 7th NFC Awards was signed, simultaneously VAT with IMF and 18th constitutional amendment was made. There are number of things which have controversy with the provinces, for VAT and latterly Reformed General Sale Tax (RGST) required provincial assembly approvals which need further negotiations. Sindh wants services tax collection and already made amendment in provincial law, institutional development and even recruitments. Federation requested the province to delay the things. The provincial government considered no difficulty in collecting of the services charges because 80 percent tax collection in it is from communication which can easily be collected through creating proxy. Provinces are very much against the implementation of vat and even in its reformed form. Even, in case it is implemented, it should followed NFC award formula for its distribution.

Five ministries and related departments are transferred under the 18th constitutional amendment to provinces. There transfer implementation should be completed before the FY 2011 -12, need lot of preparation and efforts. The assets and liabilities of these ministries and departments are not clarified and agreed. From the core ministries estimated 40 thousand people will be transferred if the

people from related bodies are also included the number reached to 150 lakhs. The federal government announced that none of the employee from these ministries will be sacked or put in the central pool, if not interested to move to provinces. This is a huge task; need lot of efforts, planning, and consideration.

In order to solve different issues and problems, Council of Common Interest (CCI) was constituted. Its rules, regulation, and mandates are not yet defined and agreed by provinces. Even, its secretariat is not yet established. It has to prepare biannual reports, almost one year is completed yet the report is not released.

The Federal government is providing subsidies from the national exchequer to tune of Rs 235 billion to four wide elephants i.e. PEPCO, Railway, Steel mill, and PIA corporations. It is important to know that the total expenditure of Federal Government is Rs 165 billion. This is a huge burden on Federal government. KPK and Balochistan are least benefited from these corporation but deprived of fund from federal government.

Lot of discussion and debate has been made regarding NFC award, and its distribution in the country with regards to decentralisation. But, decentralisation also means transfer of resources to lower tiers i.e. districts and or under developed area. There is lot of disparities in PFC awards. Substantial revenue is spending in provincial head quarter while a number of districts are not able to get their legitimate share.

The 18th constitutional amendment and 7th NFC award will fully implementation in the FY of 2011-12 and before there is a transitional period where Federation will continually manage different provincial subjects. Whereas, the provinces already got the additional share due to this Federation is under deficit due to transfer of revenue and also bear expenditure on provincial subjects, due to this Federation losses Rs 684 billion. Federation project which are now become provincial one are not yet started a judicious consultation particularly their ownership, transfer and subsequent their capacity enhancement. After the NFC award provincial government got substantial increase in their revenue with no functional transfer during FY 2010-11, this inclined provincial governments to increase their expenditure on existing functions leaving less room for the possible future transfer functions.

The environment degradation is creating serious problem in the countries and affecting large amount of losses to the economy. There is no measure and consideration related to environment degradation to halting and reversing the serious issue.

4. POSITIVE LESSONS: STRIVING FOR GOOD PRACTICE

In order to keep federation in a country resource allocation is crucial. Therefore, NFC award should be kept simple, rough justice may be better than full justice to stay the system easy and translucent so as to have wider

suitability. The award should be focus on a single objective, only in one grant programme and make the design consistent with this purpose. Having multiple objectives in an endowment agenda lopes the danger of not achieving any one of those objectives.

It is better to introduce sunset articles. It is desirable to have the grant programme reviewed periodically as it is required by the constitution i.e., every five years and renewed. In the prevailing years, there should not be at all any changes in the programme. This will to provide certainty in budgetary programming for all governments.

Fiscal equalisation should be followed i.e., grant programme that balances per capita fiscal capacity to a précised standard. Calculations required for financial ability equalisation using a commissioner tax system is a relatively straight forward and less data rigorous and less demanding exercise.

Conditionality with grant programmes is best imposed on outputs or standards of access and quality of services rather than on inputs and processes. This permits the attainment of grantor's objectives in accomplishing national/provincial objectives without undermining local choices on how best to driver such services. Remember, there is no single model of institutional arrangements that is superior. The major thing which is vital is unanimous decision, acceptable to all partners and formulated on the principle of equity and equality.

5. CONCLUSION AND RECOMMENDATIONS

Pakistan is a Federal country still its creation. Public policy including the financial one is imperative and played central role for strengthening of federations. It can determine the winners and loser at different stages of government i.e. the state, provincial, or at local levels. The governing authority or the central body will make the vital decisions about the governance and federation in people's day to day life. Fiscal federalism has been sturdily influenced by the geo-political background in which it originated. Federation of Pakistan is facing serious challenges. The financial distribution is a key step for strengthening any Federation. There are many reasons that can be attributed to the 1971 incident of Bangladesh creation but one of the major is the "Distribution of Resources". This infuriated the Bangladeshi people and contributed towards their final revolt against the Government owned by West Pakistan. Pakistan is passing through a striking period as there is a key power shift going on, from Islamabad to the provinces. There is a wave of terrorism encountering whole country after Pakistan's joining hands with US in "the war against terror" and Balochistan is also under political turmoil. Another, undercurrent is Pakistan's move toward greater democratisation, for which many sacrifices were made.

The issue of NFC Award, is crucial which was lingering on for the last 19 years, has now been resolved with unanimity and accommodating approach of the provinces. The 7th NFC award has been well recognised by all stake holders at national as well as at international level. It has been measured as a success of democratic system and provincial partners. Political specialists have recognised the hard work of the Federal Government to take all units at a harmony following a long time period. Economists have measured it groundwork for “Fiscal Federalism” in Pakistan. Provinces are becoming stronger with more financial and political powers after the 7th NFC award and 18th constitutional amendment. The most significant changes to the federal structure of Pakistan are the removal of the lengthy list of concurrent powers of the central and provincial governments and the transfer of almost all the concurrent matters to the exclusive jurisdiction of the provinces. (Concurrent powers are responsibilities that are assigned to two orders of government, which can lead to overlap and administrative confusion).

There is no similar formula adopted by provinces. The only weighting indicator which is common among all provinces is population but its weight is different. NFC award is a major accomplishment and a product of the democratic process and formulation of multiple criteria is a commendable step forward as well as to the provincial fiscal autonomy. Federal Government has taken a substantial cut in its revenue and its resources will not be sufficient.

In order to strengthening of Federalism and making of NFC award effective and efficient following recommendations are proposed:

There are now heightened expectations of the Council of Common Interests (CCI), an inter-governmental body which is intended to provide a space for provincial governments to participate in the formulation of policy on a list of matters that fall under the jurisdiction of the federal government but which inevitably concern provinces. It should be strengthened, regularised, and its meeting should regularly be held. Reforms should be taken to strengthen CCI, its role, making it an effective conflicts resolution platform among the provinces. While formulating the constitutional reforms, federal spirit must be maintained. New provinces should be created.

For fiscal Federalism, democratic NFC award is necessary; resource distribution should be judicial and equitable with the objectives to bring all provinces at par in growth and development. Ownership of natural resources, fiscal autonomy, and taxation/revenue collection should be further negotiated and consensus must be adopted.

Cultural diversity, languages, identity, and democratic spirit must be retained and adopted in any award and or constitutional amendments. Water distribution creates disagreements and conflicts among provinces are still needs further negotiations.

The Senate is an identity of federalism, there should be some reforms to strengthen the Parliament and Senate with fiscal powers. Federations have number of provincial project their future needs discussions. Policy review of national goals and objectives be carried out in consultation with provinces, future of Public Sector Development Programme, role of Planning Commission and ways to improve service delivery are the matters need clarification.

The success of the 7th NFC Award in the midst of the IMF programme depend on the fiscal discipline of the federal Government but more so the provincial government. Pakistan will land in a more difficult fiscal situation, with the country's debt burden aggravating the situation even further.

An early consultation process with provinces on transfer functions i.e. timeliness of transfer, projects, administration capacity, expenditure and delivery capacity should be undertaken. Federal ministries should be reorganised to focus on policy formulation and implementation while provincial on service delivery capacity. Provinces need lot of capacity building to take new responsibilities.

Although the 7th NFC awards is the first one which considered multiple criteria but in future new awards should cater environment, poverty and backwardness principle in its formulation.

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