

Dynamic Consequences of the 2009 NFC Award: Social Sector Public Delivery

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INTRODUCTION:

The revenue-sharing arrangement in the 7th NFC Award has posed challenges for fiscal policy-making and may have changed incentives at both federal and provincial levels. Public expenditure on social services would likely cause a positive impact on achieving the Millennium Development Goals. However, Pakistan falls among the countries that spend a very low share of their GDP on the social sector. After the 18th amendment in the Constitution, the federal government must not intervene in provincial matters. It is a province's own choices how much revenue it wants to collect and how it wants to spend the resources allocated to it. Pakistan's demographic structure and the weak state of local economy in several parts of the country, we cannot altogether ignore the needs-based distribution of financial resources. The critical shift from a 100% population-based resource distribution in last six NFC awards to a development-based distribution in the 7th NFC Award offers is not the same thing as an intervention in the internal affairs of the provinces. We need to differentiate between incentivizing and regulating the provincial expenditure. The NFC award – and also similar awards elsewhere in the world, often does the former through adding various indicators to its formulae. For example, many countries use forest cover to encourage/incentivize environment related expenditures by regional/provincial government. This, by no means, equals to regulating the provincial expenditure. Same holds true for the inclusion of indicators that promote tax efficiency in the provinces. This does not undermine the role of provinces in collecting taxes, as is commonly believed. Rather it contends that the size of the tax revenue must be adjusted to the economic and financial potential of a province to generate the tax revenue. This actually benefits the provinces with smaller economy.

In Pakistan, the financing and delivery of social services largely prevails in the hands of provinces and major sources of revenues in the hand of federal government, which creates vertical imbalances. Federal transfers are the mechanism for their correction and these are constituted through the National Finance Commission (NFC) Awards. The last NFC Award was constituted in 2009 and it changed both the size of divisible pool and the share of federal and provincial governments in the divisible pool. Given that provincial governments are largely responsible for financing and delivery of social services, this paper makes an attempt to simulate the province wise impact of this increase of divisible pool funds on social services expenditures to evaluate that weather Provinces allocate the divisible pool funds on social sector or they intend to utilize these funds for their other administrative expenditures. After the brief introduction, paper will highlight some literature review and methodology use for this study. Further, this paper develop parts as historical trend of allocation of NFC for four provinces. Than we develop our analysis province wise performance of these sector. A part of the study also spent for historic share of these sectors in each province. At the end, with ordinary least square

estimate the utilization of funds and comparative analysis of the provinces to achieve the conclusion and policy guidelines.

Literature Review:

Fiscal decentralization involves a redefinition of the roles and responsibilities of the various levels of government in the conduct of fiscal policy. There is a continuous debate in the literature of fiscal decentralization 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). Fedelino, Annalisa (2010) explained two main sources of distortions might hinder the effectiveness of fiscal decentralization. First, local policymakers can fail to internalize fully the cost of local spending when they can finance their marginal expenditure with central transfers or shared revenue funded by taxpayers in other jurisdictions (that is, the marginal benefits of additional spending exceed their marginal costs). This “common pool” problem often results in overspending and deficit bias. Second, local politicians may expect the central government to bail them out whenever necessary, thus undermining their incentives to behave in a fiscally responsible manner. Brookings 21st Century Cities Project (2016) specifically as regards intergovernmental transfers to cities, the available empirical evidence suggests that both the level and composition of per-capita transfers received vary widely, with no clear relation to size, population density, and local fiscal capacities and spending needs. The case studies in the Brookings 21st Century Cities Project will offer an opportunity to analyze which factors influence the level and mix of transfers received by each of the cities studied.. Sajid A. (2016) Going beyond mere resource distribution, the future awards need to ponder over some bigger questions as well. Particularly, two questions need an immediate deliberation. First, are the provinces ready to deepen the elements of equity and efficiency in the distribution formula? What will be the key tradeoffs of moving to a more refined efficiency-based formula? And who are the winners and losers? Second, how effective is NFC as a legal mechanism? Do we need to introduce some elements of discretion in its decision-making? We are well aware that these are difficult questions and that changing the status-quo will take time. However, addressing these questions is essential if we envisage a stronger federation in the future. Usman Mustafa (2011), viewed that 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. In Pakistan Ghaus and Pasha (1996) and Sabir (2001) developed and tested an econometric model for Pakistan to evaluate the consequences of the NFC Awards 1991 and 1997. Sabir (2001), conclude that any decline in real Federal transfers largely affected real social sector expenditures. During,2010 its projected values of social sector expenditures indicate that the NFC Award 2009 has a potentially positive impact on social sector spending. In these studies the analysis is based on generalize national level and lack of province wise analysis. This paper try to analysis the provincial efforts to utilize the share of NFC for the social sector and other utilities. In this regards this study use simple ordinary least square method to estimate the utilization of the funds for these specific sectors by each province and have comparative analysis of the social sector and other utilities during the period of 2001-2021. In this regards, Government Budgets publications are used to extract the requisite data information.

Methodology and Data Collections:

Historically, federal and all provincial governments have tried their level best to get a higher share of the revenues in order to stabilize their own financial status. Given the sensitivity attached to NFC awards, where an increase or decrease in the share of any tier of the government affects the share of other tiers. Given that provincial governments are largely responsible for financing and delivery of social services. This paper makes an attempt to simulate the province wise impact of the increase of divisible pool funds on social services expenditures during 2001-2021. In this regards budgetary documents of Federal Govt and Provincial Govts for the period of 2001-2021. To estimate the relative impacts of change in NFC funds and allocation of funds in the respective sectors of each province . A simple regression to two variables estimate degree to response of independent variable (NFC Share) on the dependent sector i.e education, health, water and sanitation and Road communications. In line with its scope this paper is restricted to the estimation of the following equation derived for social services expenditures.

$$Y_{ij} = a + b X_i + e \quad \text{eq (1)}$$

Y_{ijk} : .i th Province and jth of its sector allocation of funds in kth time period i.e Year.

X_{ik} : ith Provincial share of NFC Funds in kth time period.

“ .i” : Punjab, Sindh, KPK, Balochistan

**“ j ” : Education, Health, Water and Sanitation and
Transportation and Communication**

“ k ” : Financial years 2001-02 to 2020-21.

PROVINCIAL SHARE IN NFC DURING 2001-2021

The financial status of provincial governments in Pakistan hinges largely on federal transfers to the provinces constituted through National Finance Commission (NFC) Awards. These awards design the formula of distribution of resources between federal and provincial governments. According to the constitution of Pakistan, the NFC is set up by the president of Pakistan every five years. Table -1 having chronology of NFC awards. In this study we are evaluating the provincial performances in social and other sectors Sixth and Seventh. Fifth NFC Award 1997

constituted for a period of five years (1996-97 to 2001-02), but remained in practice till 2005-06. In 2006, a distribution order from the president of Pakistan replaced the NFC Award 1997 and Seventh NFC award conclusive in 2009.

Table-1: Chronology of NFC Awards

S. No.	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
	NFC Award 1997	Conclusive
Sixth	NFC Award 2002	Inconclusive
	Distribution Order 2006	–
Seventh	NFC Award 2009	Conclusive

The largest component of the revenue received from Federal Level is the transfer of the divisible pool of taxes according to the 7th award of the National Finance Committee. The vertical distribution of the pool is fixed at 44% for the Federation and 56% for the Provinces. The vertical distribution across the provinces is based on four criteria of which population is the most

Criteria	Share	Relative
Population		82.0%
Poverty Level		10.3%
Revenue Generation		5.0%
Inverse Population Density		2.7%

important one. The distribution criteria of the NFC Award formula and the provincial share in the divisible pool of taxes is presented in the table below:

Table-2: NFA Award Formula

Source: Finance Department Sindh

Table-3: Provincial Share

Province	Relative Share
Punjab	51.74%
Sindh	24.55%
Khyber Pakhtunkhuwa	14.62%

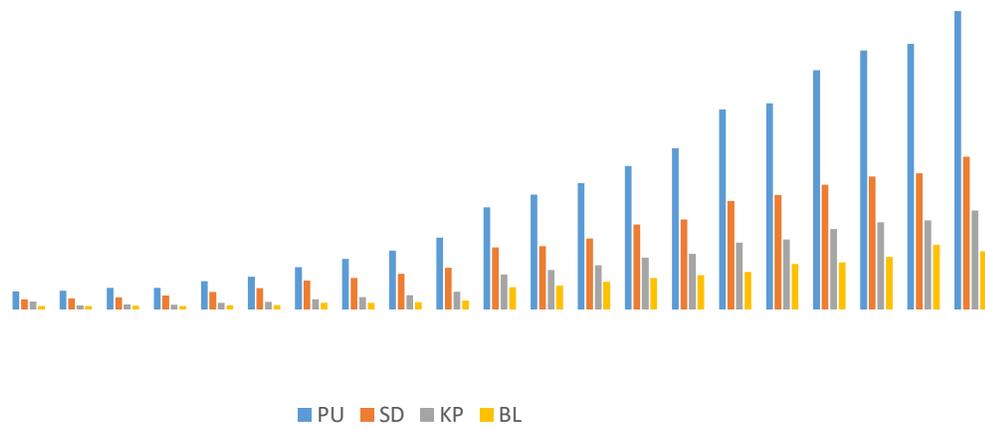
Baluchistan	9.09%
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Source: Finance Department Sindh

At present the 7th National Finance Commission award is in practice. Through this award, financial autonomy of the provinces has been ensured by increasing their share in the divisible pool (taxes) from 46.5pc to 57.5pc from 2011-12 onwards. The 8th NFC was constituted on July 21, 2010, but it did not give any award as the latest award was just implemented. The 9th NFC was constituted on April 24, 2015 and its first meeting was held on April 28, 2015. The 9th NFC, in its first meeting, constituted four working groups to undertake thematic studies to assist the commission in making its deliberation meaningful 24, 2015 After the 2018 general elections, the 9th NFC was reconstituted in consultation with the provincial governments. The reconstituted NFC held two meetings on Feb 6 and March 29 this year in Islamabad and Lahore, respectively. The NFC also set up six sub-groups and it is expected the working groups will finalise their recommendations shortly. The 9th NFC was constituted on April 24, 2015 and reconstituted a couple of times in 2016, 2018 and 2019 owing to change in governments and replacement of non-statutory members, but it failed to conclude a new award as no meaningful and structured dialogue could be sustained As a result, multiple calls from various quarters, including the finance ministry, the armed forces and the International Monetary Fund, to rebalance the transfer of a larger chunk of the divisible pool resources to the provinces under 7th NFC Award have remained unaddressed. Also, the 7th NFC Award announced in 2009 continued with annual extensions and remains in place even now instead of constitutional term of five years that came to an end on June 30, 2015. The Constitution promises that provincial shares in each NFC award could not be reduced. According to the official communique available with The News, the inaugural meeting of the 10th NFC is scheduled on February 4, 2021 in Islamabad. The NFC secretariat circulated two-point agenda for the maiden meeting.

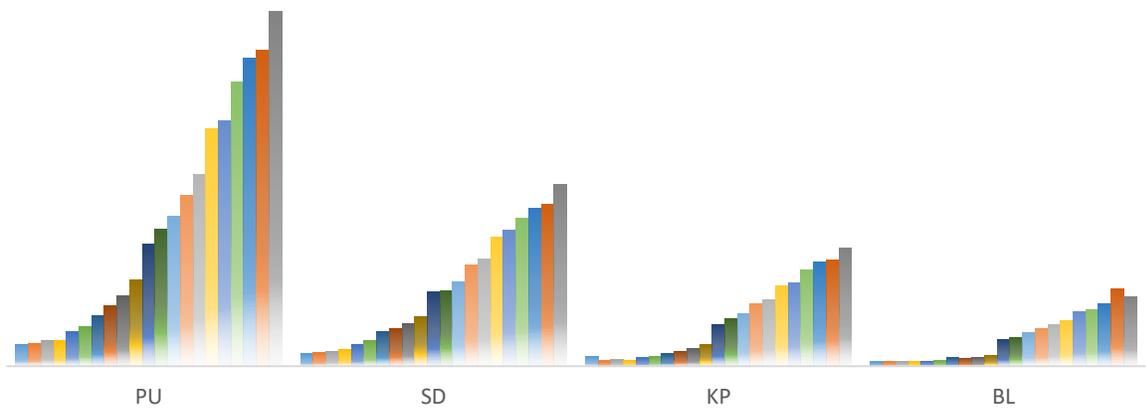
Historically, federal and all provincial governments have tried their level best to get a higher share of the revenues in order to stabilise their own financial status. As a result, there are very few examples of consensus based conclusive awards in the past. These consensus based awards have had different gainers. For instance, in the NFC Award 1991, provincial governments were the main beneficiaries as they received substantially higher shares of buoyant taxes such as sales and income taxes. In contrast, the largest beneficiary of the NFC Award 1997 was the federal government as it allocated higher shares of all taxes to itself in order to stabilise its financial status. Given the sensitivity attached to NFC awards, where an increase or decrease in the share of any tier of the government affects the share of other tiers with the same magnitude in the opposite direction, it seems very difficult to develop a consensus among federal and provincial governments. As a result, since the separation of East Pakistan, there have been only three conclusive NFC Awards (1974, 1991, 1997) and one presidential distribution order (2006) prior to the 7th NFC Award. Figure 1 and 2 indicate the trend of distribution of Divisible pool among the provinces during 2001-2021,

Fig-1: PROVINCIAL SHARE OF NFC SHARE DURING 2001-2021



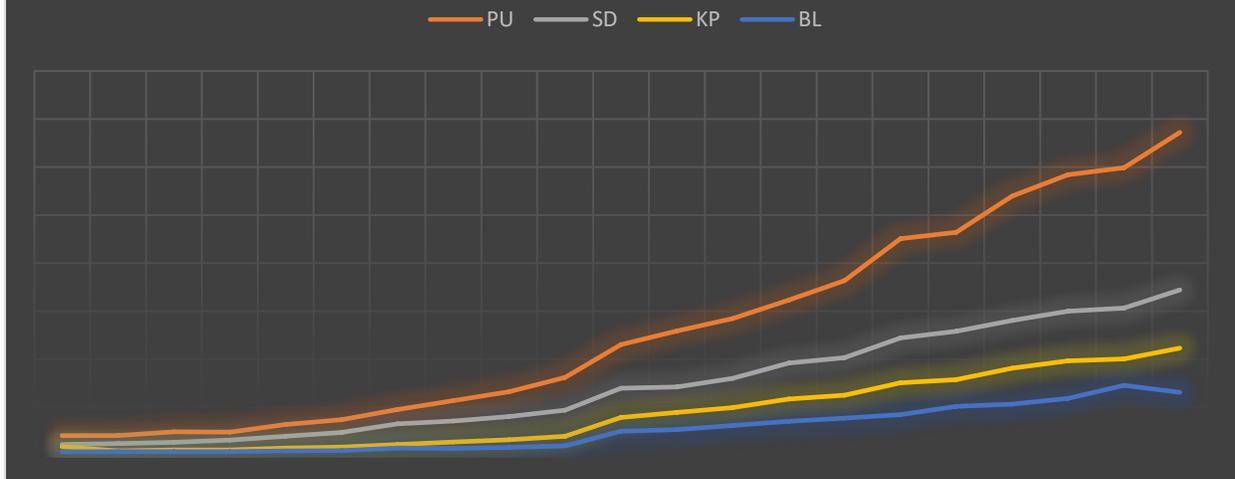
Source: PRSP and Budgets 2001-2021

FIG-2: NFC SHARE IN PROVINCES DURING 2001-2021



Source: PRSP and Budgets 2001-2021

FIG-3: NFC TREND IN PROVINCES DURING 2001-2021



Source: PRSP and Budgets 2001-2021

Punjab all the time share more in divisible pools because of devised formulas of different NFCs being area and population the biggest province. But during the period, the share of divisible pool hicks in both figures highlight that KPK and Balochistan having slow rise in share during the period. Whereas, Sindh and Punjab, particularly Punjab shown a very sharp rise in trends during last 22 years. Figure -3 also indicate the similar position which the gap between provinces lights the increasing gap the graph of Punjab trend and other provinces. This indicate, with passage of time Punjab gain more and more share of Divisible pool of taxes as compare to other provinces.

PUNJAB AND ITS ALLOCATIONS :

The land of 5-rivers, population-wise the largest, and once known as the granary of east, Punjab is the lifeline of Pakistan. Punjab is the most populous province of Pakistan. According to the 1998 census, the population of the province is 7, 25,85,000. The population density is 353 persons per square kilometer as compared to the national figure of 164. Punjab economy is mainly agricultural, although industry makes a substantial contribution. The province is playing a leading role in agricultural production. It contributes about 68% to the annual food grain production in the country. 51 million acres of land is cultivated and another 9.05 million acres are lying as cultivable waste in different parts of the province.

Punjab, having a central reinforced role in the performance and development of the national economy, played a critical role in the recovery of the national economy through contribution in all major sectors. Government of the Punjab calibrated its policies and strategies with the COVID-19 pandemic and developed a comprehensive response to COVID-19 through the Responsive Investment in Social Protection and Economic Stimulus (RISE) Punjab. Well-designed, targeted interventions helped in stimulating Provincial economic recovery and restricting the COVID-19 impact to the minimum, in spite of huge resource constraints. Substantial public investment was made in key social sectors like health, education. During the 2021-22, the total General Revenue Receipts of Government of the Punjab have been pitched at

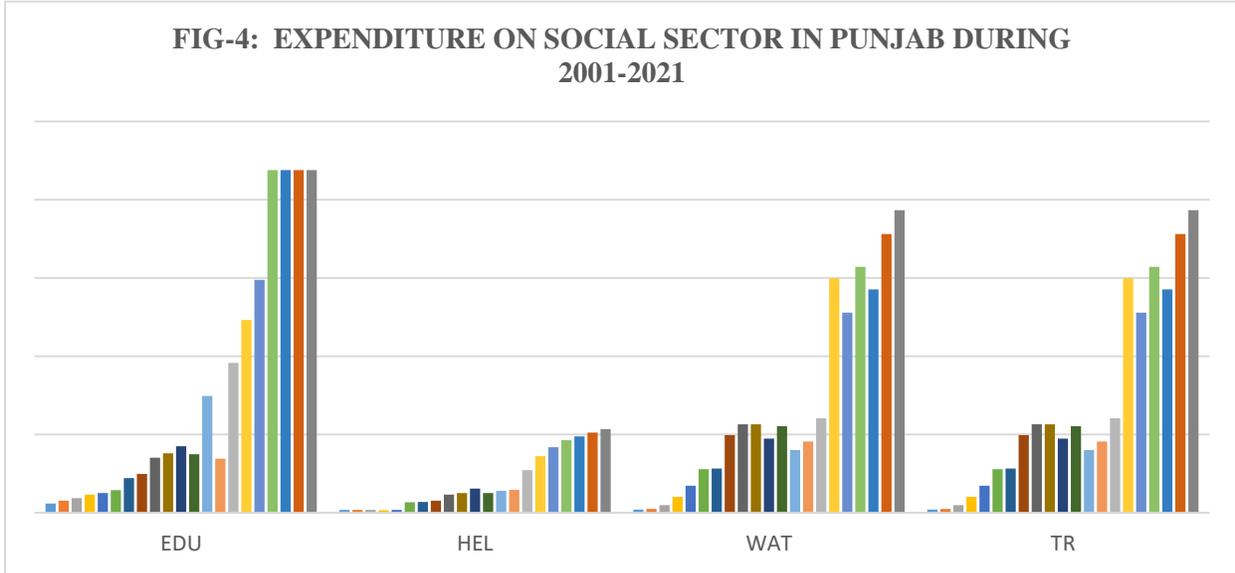
PKR 2,088.3 billion; including Federal Divisible Pool transfers of PKR 1,683.7 billion and Provincial Revenues of PKR 404.6 billion. The Current Expenditure of the Government has been pitched at PKR 1427.9 billion. During the CFY 2020-21, Government of the Punjab enforced a strict monitoring regime on expenditure with prudent spending. Expenditure on Health sector and allied services is expected to grow. Federal Government's priority program of provision of low cost housing to public as well as a boost to construction sector in general has also been kept in attention. Punjab has amplified its commitment in expanding economic cooperation with China since inception of CPEC. After catering infrastructure, energy and connectivity, focus has now shifted towards industrial, agricultural and socio-economic cooperation. Government of the Punjab has also made significant progress in calibrating its policies and frameworks with the Sustainable Development Goals (SDGs) while pledging adequate resources for the implementation of the 2030 Agenda for Sustainable Development. To enhance fiscal space through Own Source Revenue, the Government is undertaking several tax related reforms involving taxes such as Electricity Duty, Urban Immovable Property Tax, Motor Vehicle Tax etc. Efforts have also been made to include new taxes under purview of E-pay Punjab. One such important initiative is E-Abyana which is expected to facilitate farmers to pay Abyana through electronic payments, and improve quality of assessments and transparency in billing system leading to enhanced revenue generation.

Education is a most significant social service and the very premise on which growth takes place, be it economic, or human capital, social or cultural. Education improves individuals and society as a whole and is closely linked to health through understanding of preventive care and sanitation along with improved nutritional intake. An educated population will be better able to make informed choices in public decision making. Education Sector is of interest to all policy makers and practitioners alike. District Education Authorities have also been established under the Local Government Act, 2019 empowering local governments to spend on educating children who are the future of Pakistan. Education Health Social Welfare & Bait ul Maal Women Development Youth Affairs & Sports Population Welfare Local Government & Community Development Main Pillars of Social Sector Provision of Public Goods is one of the most important objectives of public sector spending.

COVID-19 remained a challenge for Government of the Punjab and it is predicted that economic slowdown and slow revival is at the start. Due to effective Government policies and public investments, economic recovery and growth picked up at a much higher pace. Annual Development Programme was developed as a sustainable investment plan for Punjab to counter the effects of COVID-19 and at the same time accelerate growth in key sectors of the economy. Priority areas in ADP 2020-21 were livelihood security through Social Protection schemes; investments to fill Health infrastructure gaps, ensuring Food Security; Education and Human Capital Development along with support to the MSME sector.

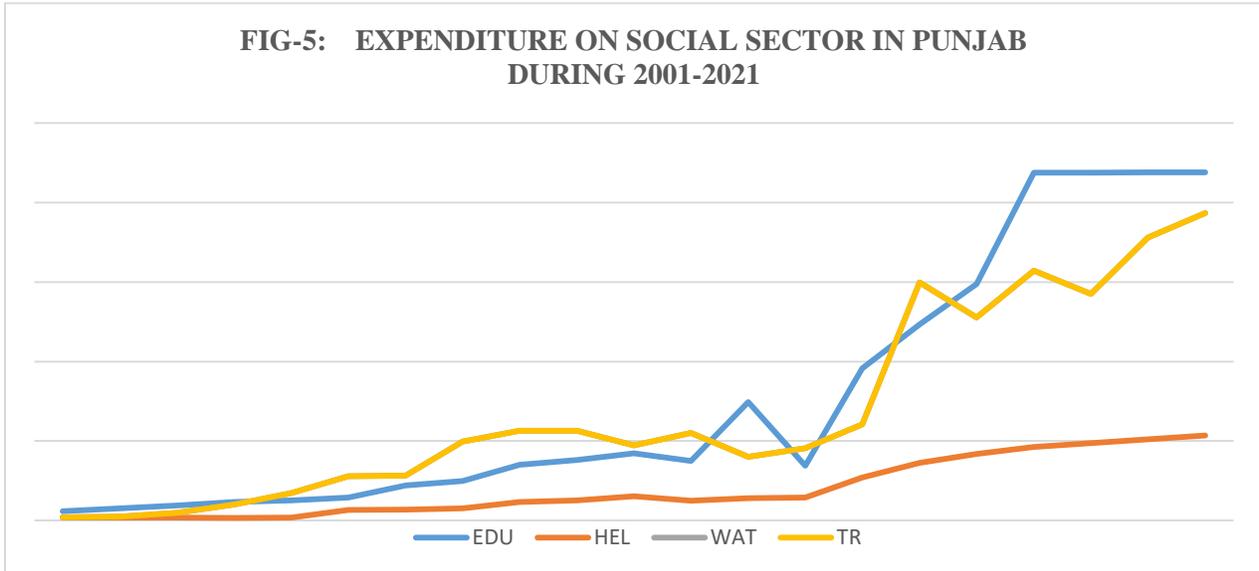
Punjab being the largest province, sharing about 50% of divisible pool funds. Fig 4 and 5, showing its allocation in social sector (Education and Health) and other utilities (Water & Sanitary and Roads and Transport). The share allocation indicates that an average 15 percent of NFC transfers utilize for the Education which is highest amongst other sectors. Water and Roads are allocated significant funds as compared to health services in Punjab.

FIG-4: EXPENDITURE ON SOCIAL SECTOR IN PUNJAB DURING 2001-2021



Source: PRSP and Budgets 2001-2021

FIG-5: EXPENDITURE ON SOCIAL SECTOR IN PUNJAB DURING 2001-2021



Source: PRSP and Budgets 2001-2021

SINDH AND ITS ALLOCATIONS

Sindh is the second largest province in Pakistan, Home to 47.886i million inhabitants (2017), with 23 percent of the total population and 17.7 percent of total land area of Pakistan. As an industrial, commercial and financial hub of Pakistan, Sindh plays a pivotal role in the national economy and development. Endowed with coastal access, Sindh is a major center of economic activity in Pakistan and has a highly diversified economy, ranging from heavy industry, manufacturing, services sector and agriculture. Most of the growth in the provincial economy can be attributed to the services sector, followed by the industry. The province has two seaports, handling majority of country's exports and imports, its vibrant stock exchange and the most resilient business community have been the driving force behind country's economic activity.

The province continues to grapple with low level of human development: low literacy level; poor health indicators; inadequate access to safe drinking water and sanitation. Besides that, poverty, hunger, regional, gender and income disparities, characterize our social underdevelopment. Health system faces many challenges that are generally crosscutting in nature. Today, Sindh province is undergoing a massive transition. On one hand, there is rapid urbanization with people flocking to cities and towns, while on the other, municipal services are not able to cope with the demand especially with the mushroom growth of new housing schemes, industrial estates and commercial zones. Taking these issues into consideration, and recognizing the urgency of the problems, the Government of `Sindh has developed its ten-years sector development plan for water, sanitation and hygiene, which shall usher in a new era of sectoral development based on sound evidence, clear strategic directions and multi-sectorial engagement to achieve the Sustainable Development Goal on water and sanitation.

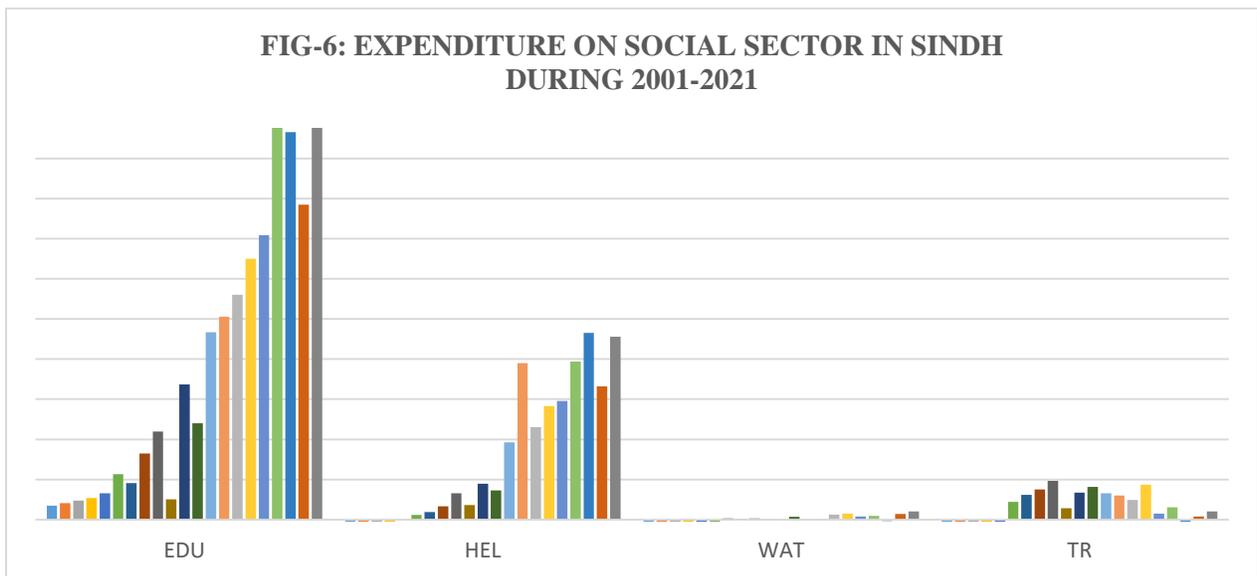
Health poverty-illiteracy nexus, coupled with gender inequality and regional disparities, results in uneven health coverage; inadequate supply of pure drinking water and sanitation services trigger the spread of communicable diseases. The Government of Sindh has therefore made tremendous efforts for improvement of health facilities in the Province. The federal and provincial share in total public spending on health shows that major share of spending on health has been observed in Punjab followed by Sindh.

Water and Sanitation Availability of better sanitation facility and safe drinking water is directly proportional to the health of the population, especially mothers and children. In Sindh, the access to tap water resources is available to 41% households compared to 27% in Pakistan, 18% in Punjab, 44% in KPK and 33% in Baluchistan in 2014-15. In the same year, 67% population, in Sindh had access to sanitation facilities (Toilet with Flush), comparing 73% in Pakistan, 79% in Punjab, 76% in KPK and 31% in Baluchistan.

Education As per Economic Survey of Pakistan 2016-17, Sindh's literacy rate improved from 56% in year 2013-14 to 60% in 2014-15, which is similar to national average (60%) but less than Punjab (63%) but it went down to 55% again in 2015-16. There exists regional and gender disparities in the level of attainment of education in populace. The literacy rate in urban population of 10 years and above is 76% compared to only 40% of their rural compatriots. The female literacy rate among urban population is 65 percent – almost more than three times higher

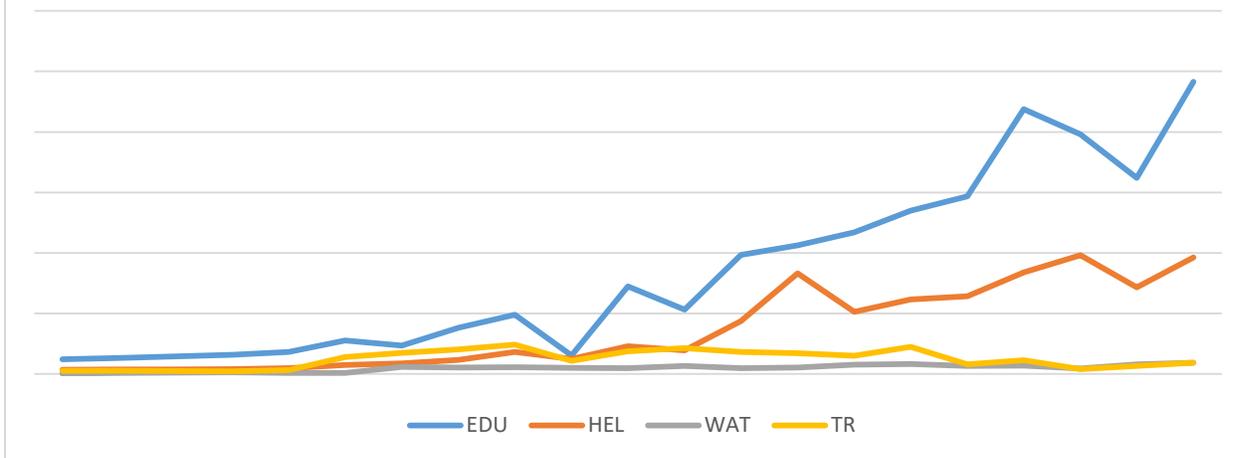
than that of the rural households that is as low as 19% in 2015-16. There is a dearth of basic facilities like science labs, library, play, electricity, toilets, boundary walls etc. in a large number of schools.

Federal Transfers comprises of the revenue assignment, straight transfers, PSDP related development grants and OZT grants. The largest component of the revenue received from Federal Level is the transfer of the divisible pool of taxes according to the 7th award of the National Finance Committee. Sindh being the 2nd largest province , sharing about 20 % of divisible pools funds. Fig 6 and 7, showing its allocation in social sector (Education and Health) and other utilities (Water & Sanitary and Roads and Transport. The share allocation indicate that an average 25 percent of NFC transfers utilize for the Education which is highest amongst other sectors. Water and Roads are allocated significant funds as compare to health services in Punjab.



Source: PRSP and Budgets 2001-2021

FIG-7: EXPENDITURE ON SOCIAL SECTOR IN SINDH DURING 2001-2021



Source: PRSP and Budgets 2001-2021

Broadly speaking, governance is “the manner in which power is exercised in the management of a country’s economic and social resources for development” (World Bank, 1992). In this perspective, governance is directly related to the strength of the institutions through which the citizens interact with the government line departments. The strength and capacity of institutional set-up is important for development process because it determines the impact created by the socio-economic policies of the government. In this context, Government of Sindh has been aware of the importance of the administrative and fiscal institutions and focused on their development and strength through successive instalments of reforms aimed at improved service delivery to the people and future needs of society. Some glimpses of public financial management reforms are given below: Public Financial Management Reforms Public Financial Management is a cross-cutting theme that can affect public service delivery and economic development in the fashion it is practiced. Reforming this critical area has a gross positive impact on governance on multiple accounts. Its manifestations are reflected by enhanced transparency, accountability, efficiency, and fiscal discipline in the management of public finances.

KPK AND ITS ALLOCATIONS

The economy of Khyber Pakhtunkhwa, a province of Pakistan, is the 3rd largest in the country. Khyber Pakhtunkhwa's share of Pakistan's total GDP has historically comprised 10.5%, although the province accounts for 11.9% of Pakistan's total population, rendering it the second-poorest province after neighboring Balochistan. The part of the economy that Khyber Pakhtunkhwa dominates is forestry, where its share has historically ranged from a low of 34.9% to a high of 81%, giving an average of 61.56%. Currently, Khyber Pakhtunkhwa accounts for 10% of Pakistan's GDP, 20% of Pakistan's mining output and since 1972, it has seen its economy grow in size by 3.6 times. Agriculture remains the important and the main cash crops include wheat, maize, Tobacco (in Swabi), rice, sugar beets, as well as various fruits are grown in the

province. Some manufacturing and high tech investments in Peshawar has helped improve job prospects for many locals, while trade in the province involves nearly every product. The bazaars in the province are renowned throughout Pakistan. Unemployment has been reduced due to establishment of industrial zones. Numerous workshops throughout the province support the manufacture of small arms and weapons of various types. The province accounts for at least 78% of the marble production in Pakistan

The Article 25-A of the Constitution of Pakistan – “The State shall provide free and compulsory education to all children of the age of five to sixteen years in such manner as may be determined by law” – makes education a fundamental right of the citizens. However historically there have been low overall outcomes in education sector. Therefore, the Government has given utmost priority to providing free and fair education to all and creating adequate mechanisms to achieve this objective.

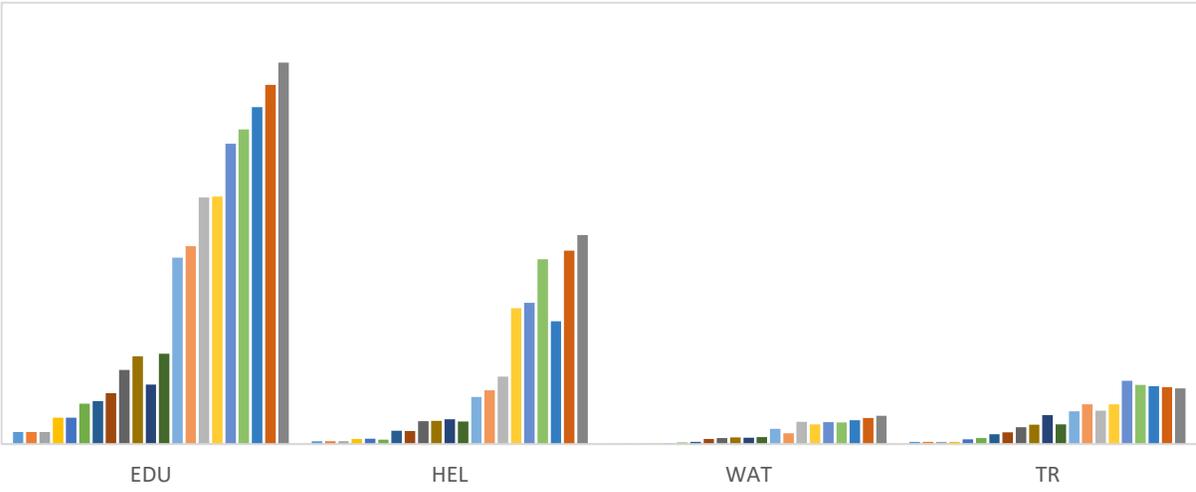
The Health Department is mandated to ensure provision of quality health services to the people at an affordable cost. The Department has a network of 86 Rural Health Centers (RHCs), 784 Basic Health Units (BHUs), 525 other Primary Health Centers and 122 Hospitals including 11 autonomous tertiary hospitals. The KP Health Sector Strategy outlines key outcomes with strategic actions to implement the agenda and vision of the Government.

Public Health Engineering Department re-established as independent Administrative Department in November 2009 has the mandate to ensure “Provision of safe drinking water and sanitation facilities to the people of Khyber Pakhtunkhwa in an efficient manner at an affordable cost without any discrimination to promote health, hygiene and cleaner environment”. Recognizing access to safe drinking water and basic sanitation as the basic human rights, the GoKP is committed to the provision of adequate quantity of safe drinking water and basic sanitation services to the entire population of the Province at an affordable cost.

Road transport is the main communication mode within Khyber Pakhtunkhwa and predominantly used for inter provincial transport being an easy and affordable facility with better accessibility to remote corners of the Province. Mandate of the department is developing efficient road network with a strategic thrust on optimal utilization of the existing capacity, emphasis on asset management with consolidation, up gradation, rehabilitation, and maintenance of the existence system. Institutional capacity building and research and development activities are being under taken with the use of modern technologies to optimize efficiency fetching greater value for money. Apart from communication sector, construction and maintenance of buildings fall under the purview of the Communication and Works Department. Road Network is the backbone of trade and commerce of a country. In the wake of globalization and economic interdependence, the National Trade Corridor Improvement Program (NTCIP), followed by China Pakistan Economic Corridor (CPEC) provides an overarching premise.

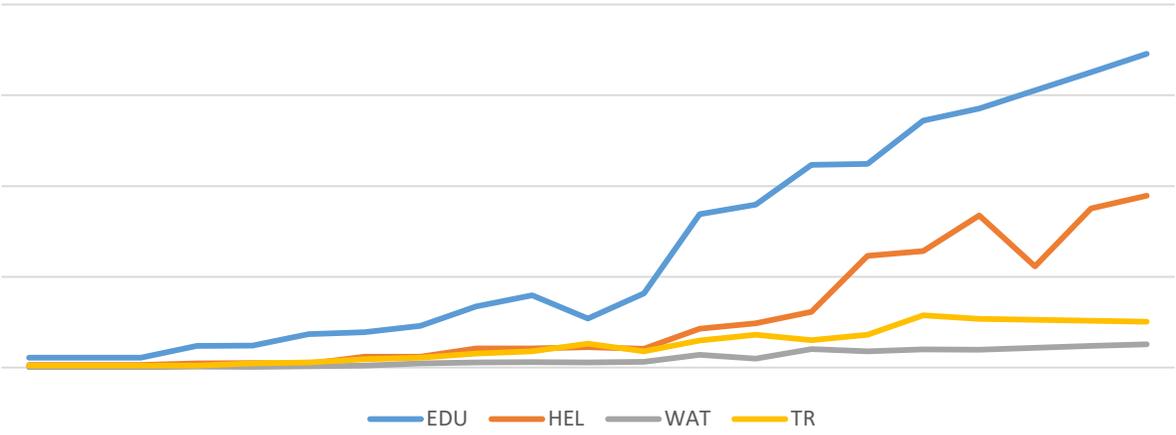
KPK sharing about 15 % of divisible pools funds. Fig7 and 8, showing its allocation in social sector (Education and Health) and other utilities (Water & Sanitary and Roads and Transport). The share allocation indicate that an average 40 percent of NFC transfers utilize for the Education which is highest amongst other sectors. Water and Roads are allocated significant funds as compare to health services in Punjab.

FIG-8: EXPENDITURE ON SOCIAL SECTOR IN KPK DURING 2001-2021



Source: PRSP and Budgets 2001-2021

FIG-9: EXPENDITURE ON SOCIAL SECTOR IN KPK DURING 2001-2021



Source: PRSP and Budgets 2001-2021

BALUCHISTAN AND ITS ALLOCATIONS

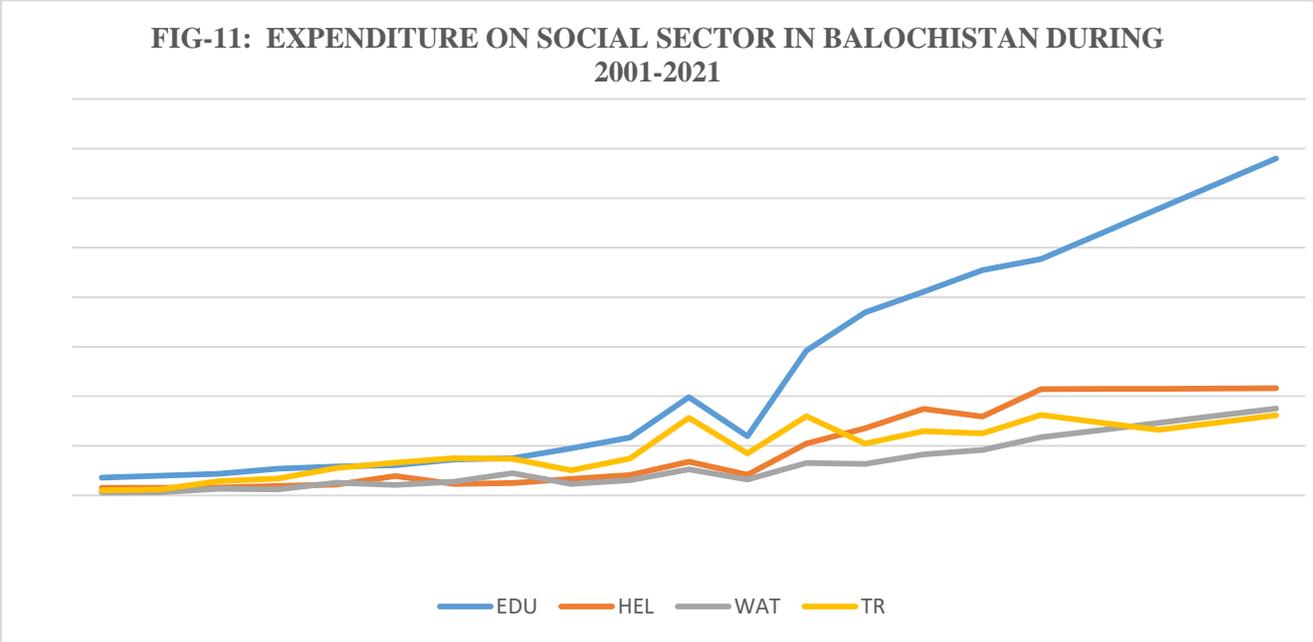
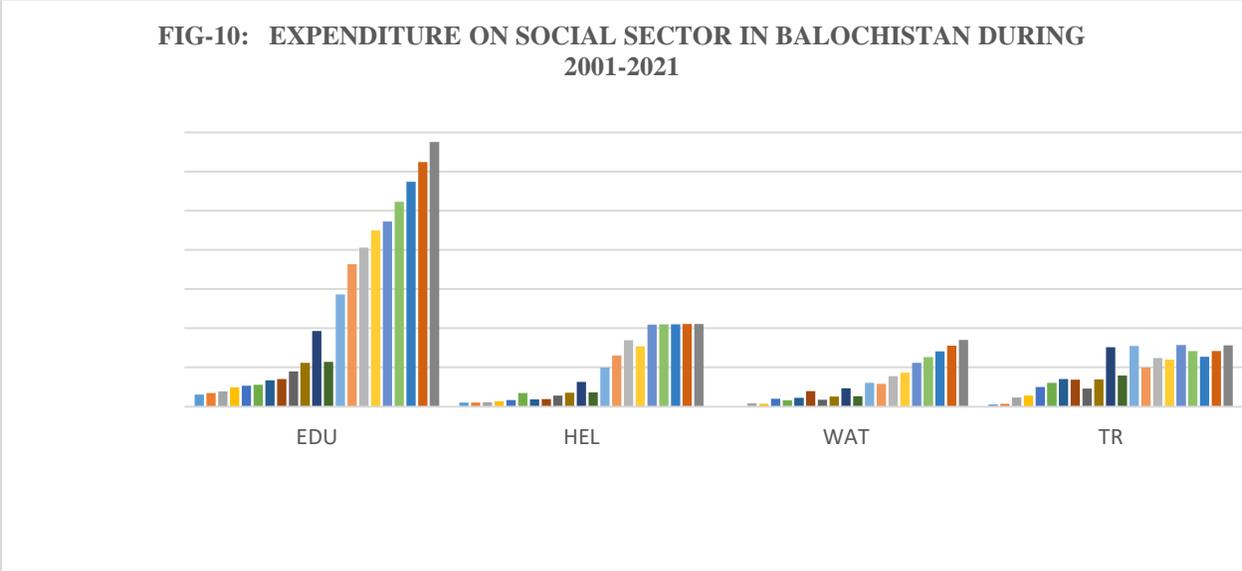
Balochistan is one of the four provinces of Pakistan. It is the largest province in terms of land area of 347,190 km, forming the southwestern region of the country, but is the least populated of 12.34 million (2017). Its provincial capital and largest city is Quetta. The economy of Balochistan, one of the four provinces of Pakistan, is largely based upon the production of natural gas, coal, and minerals. Agriculture and livestock also dominate the Baloch economy. Horticultural development is a fairly recent, yet growing phenomenon. Other important economic sectors include fisheries, mining, manufacturing industries, trade and other services being rendered by public and private sector organizations in the province. Outside Quetta, the infrastructure of the province is gradually developing but still lags far behind other parts of the country. Tourism remains limited but has increased due to the exotic appeal of the province. Limited farming in the east as well as fishing along the southern Arabian Sea coastline are other forms of income and sustenance for the local populations. Due to the tribal lifestyle of many Baloch and Brahui people, animal husbandry is important, as are trading bazaars found throughout the province. Though the province remains largely underdeveloped, there are currently several major development projects in progress in Balochistan, including the construction of a new deep sea port at the strategically important town of Gwadar. The port is projected to be the hub of an energy and trade corridor to and from China and the Central Asian republics.

At Gwadar on the coast the Pakistani government is currently undertaking a large project with Chinese help to build a large port. This is being done partially to provide the Pakistan Navy with another base, and to reduce Pakistan's reliance on Karachi and Port Qasim, which are currently the only major ports.

The economy of the province is largely based upon the production of natural gas, coal and minerals. The province's natural resources significantly help to meet the energy needs of Pakistan as a whole. Infrastructure outside of Quetta is still in development as is the province as a whole. Limited farming in the east as well as fishing along the Arabian Sea coastline are other forms of income and sustenance for the local populations. Due to the tribal lifestyle of many Baluch and Brahui, animal husbandry is important as are trading bazaars found throughout the province.

There are five main public universities in Balochistan, but there many private also in setting up to deliver the increasing demands for the province. The current government kick started its tenure focusing on effective and efficient service delivery across the province, additional funds were injected in sectors which were previously neglected but efforts of the government received major setback due to the Pandemic COVID-19 which devastated the world economy and health systems, the virus put both our economy and health care system under enormous pressure. It was not done with when locust struck in and devastated Agriculture Sector. The government intends to improve Health Care services in the province and to make the things happen Health Department has been bifurcated in to two administrative departments for effective and efficient service delivery, more funds are injected in health sector to improve basic health care services in the province and simultaneously cogent steps taken to ensuring regulatory role of the government on private healthcare providers in the province.

Balochistan sharing about 9 % of divisible poolsf funds. Fig4 and 5, showing its allocation in social sector (Education and Health) and other utilities (Water & Sanitary and Roads and Transport. The share allocation indicate that an average 25 percent of NFC transfers utilize for the Education which is highest amongst other sectors. Water and Roads are allocated significant funds as compare to health services in Punjab.



Source: PRSP and Budgets 2001-2021

ESTIMATION OF SOCIAL SECTOR AND OTHER UTILITIES AMONG THE PROVINCES:

According to the constitution of Pakistan, the NFC is set up by the president of Pakistan every five years. In the NFC Award 1991, provincial governments were the main beneficiaries as they received substantially higher shares of buoyant taxes such as sales and income taxes. In contrast, the largest beneficiary of the NFC Award 1997 was the federal government as it allocated higher shares of all taxes to itself in order to stabilize its financial status. To estimate the allocation of funds to social sector and other basic public utilities, Province wise sectoral estimation of these repression that change in the NFC funds how much provinces response in their respective provinces . The mode eq(1) was estimate model was estimated for the four provinces. Annual budget statements of the individual provinces have been used to generate the aggregate database for key provincial budgetary magnitudes. The above equation is estimated for the period 2001-02 to 2020-21. Results of estimation are given in Table5 to 7.

TABLE 4: PROVINCE WISE ALLOCATION IN EDUCATION SECTORS DURING 2001-2021

	Unstandardized Coefficients		Standardized Coefficients		Sig.
	B	St. Error	Betta	t	
PUNJAB	0.310	0.010	0.989	29.695	0.000
SINDH	0.035	0.002	0.980	21.274	0.000
KPK	0.393	0.018	0.980	21.735	0.000
BALUCHISTAN	0.224	0.011	0.979	21.105	0.000

Table 4 estimate the education sector allocation of NFC funds. The signs of all the estimated coefficients are theoretically consistent. Each coefficient is significantly different from zero at a 5 percent significance level as apparent from the t-statistics.. According to the estimated equation an increase or decrease of Rs 100 in either the real federal transfers or lump sum grants or borrowing can affect the education allocation social sector in KPK by Rs.39 which is highest amongst four provinces as compare to Rs. 31of Punjab. Its alarming that Sindh government utilize only Rs. 3 on education with the increase of Rs. 100 in Federal transfers.

TABLE 5: PROVINCE WISE ALLOCATION IN HEALTH SECTORS DURING 2001-2021

	Unstandardized Coefficients		Standardized Coefficients		Sig.
	B	St. Error	Betta	t	
PUNJAB	0.182	0.012	0.959	14.686	0.000
SINDH	0.152	0.011	0.954	13.858	0.000
KPK	0.206	0.016	0.945	12.561	0.000

BALOCHISTAN	0.086	0.005	0.966	16.226	0.000
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Similarly KPK again spent Rs. 20 of Rs.100 of NFC funds on health as compared to Rs. 18 of Punjab and Rs. 15 of Sindh. Balochistan government very keen to spent on health which need to be addressed by Federal Govt. In overall Punjab government show better performance on allocation of Federal transfers for social sector.

TABLE 6: PROVINCE WISE ALLOCATION IN WATER AND SANITATION SECTORS DURING 2001-2021

	Unstandardized Coefficients		Standardized Coefficients		Sig.
	B	St. Error	Betta	t	
PUNJAB	0.043	0.002	0.979	20.886	0.000
SINDH	0.010	0.002	0.802	5.858	0.000
KPK	0.030	0.002	0.969	17.079	0.000
BALOCHISTAN	0.056	0.003	0.971	17.637	0.000

TABLE 7: PROVINCE WISE ALLOCATION IN COMMUNICATIONS AND ROADS SECTORS DURING 2001-2021

	Unstandardized Coefficients		Standardized Coefficients		Sig.
	B	St. Error	Betta	t	
PUNJAB	0.138	0.011	0.949	13.090	0.000
SINDH	0.004	0.008	0.110	0.482	0.635
KPK	0.065	0.004	0.964	15.850	0.000
BALOCHISTAN	0.047	0.007	0.848	6.986	0.000

Similarly Table-6 & 7 also indicates that Punjab showing better allocation of divisible pool funds on basic utilities. On Roads and communication Punjab areas shown better conditions. Water and sanitation condition also in better position in Punjab as the funds utilization indicate as compare to other provinces. Sindh Govt. shown a very poor condition in all the sectors. Due to political stands, government of Sindh should be persuaded to improve its performance of the utilization of Federal transfers.

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 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 recognized 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.

CONCLUSION

In over 60 years, Pakistan has moved from crisis to crisis. An important reason for its dysfunctional governance is the ruling elite’s lack of adherence to constitutional principles. The 18th Amendment is well intentioned in its aim to bring greater clarity to the roles and responsibilities of various orders of government, and to ensure greater provincial autonomy .The success of the 7th NFC Award in the midst of the IMF programmer depend on the fiscal discipline of the federal Government but more so the provincial government. 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 reorganized 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. This study highlighted the weak performance of provinces in certain social sector and public utilities. Therefore, it is recommended that in future formula it should be considered and allocation of funds should be locked with performance of these sector. It is hoped that it will improve the public delivery of funds and provincial finance departments cater these public interests wellbeing of common people. In this regards federal government have check and balance the utilization of these scarce funds for social welfare.

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