

(NFC Award)

→ What is it?

- National Finance Commission → the formula that determines the share of resources b/w the federal govt and its four federating units is called the NFC awards.
- Secondly, Rawas Award was formed to apportion resources b/w East Pakistan (US) and West Pak (55%).
- After the Bengal separation, 7 NFC awards have been presented.

- 4 were approved
- 3 " rejected.

→ Reasons

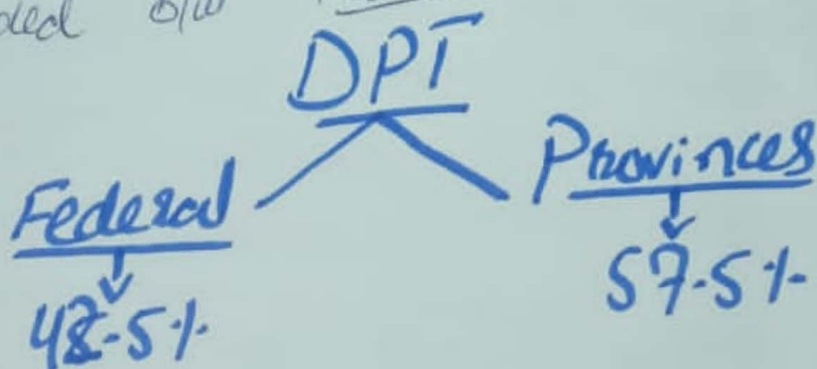
① Military regimes - 1979, 1984, 2008

→ Pak has introduced 7 NFC awards b/w the dist of revenue b/w the Centre & since 1975 → in 2010 ASI 2 argues that while the 7th awards has increased the share of provinces in the divisible pool it has also raised concerns b/w Centre - somewhat, unable to give Provincial revenue per inter capacity has.

7th NFC

7th NFC award (2009) is a landmark award in the history of Pakistan, as it gives weightage not only to population but to 3 other factors also. And it is still operating in Pakistan. Although NFC has to make a new award after every 5 years. According to the changing circumstances and needs.

The NFC is Divided into Federal and Provincial. The award is divided b/w Federal and Provincial.



① Horizontal resources distribution Criteria

→ The SPT of DPT, which needs to be allocated to provinces, depends on the following 4 factors-

Indicators

Weightage

① Population	83%
② Poverty/Backwardness	10.3%
③ Revenue collection/ generation	5%
④ Increase Population Density / rural-urban	2.7%

→ Provincial Share Finalized in 7th NFC
(depending on horizontal resources distribution criteria)

Provinces

Share %

① Balochistan	—	9.9%
② Punjab	—	51.62% 51.94%
③ Sindh	—	24.55%
④ KPK	—	14.02%

→ Why revisit the NFC?

→ The 10th amendment has added complexities where many problems arise-

- Massive spending
- burden on federal govt-

→ The govt has to resort to borrowing to support budget deficit from the State Bank of Pak, which makes it difficult for the govt to meet development financing. Jobs, Pensions, Salaries, defense.

Center's mechanism through which any federal unit can provide the best of both worlds without alienating its expenditures.

Center's Concerns After 7th NFC Award

→ The Centre wants to take any policy initiative which may have financial implications such as

→ Covid-19

→ Floods

→ Merger of (FATA)

→ Because of these issues Centre is handicapped though provincial status has improved, how will state manage the financial problems in long run?

→ Since the 18th Amendment, a number of ministers have been deputed to the provinces.

→ This brings the federal govt into a compromising situation to get into international agreements after the devolution of many ministers into the provinces.

→ No doubt lot less to the Centre was felt by the govt as the expected 15% increase in tax-to-GDP under the 7th NFC award has not been reached to date.

→ The provinces believe that the reason for low tax-to-GDP is because of the Federal Board of Revenue's (FBR) poor performance.

Provincial Revenue Generation Problem

→ Provinces are unable to generate revenue as per the capacity.

→ NO systematic approach

→ And provinces burdened the Centre because of

④ has overwhelmed itself by managing millions
Policy belongs to the provinces

- SDGs
- Subsidies on fertilizers
- Rural development
- Gender issues

~~Current Policy~~

→ Federal resources continue to flow disproportionately to the provinces with large population.
→ And the recent advice by the IMF to review the NFE award has sparked a new debate among those inclined towards centralization.
→ These quarters claim that the award is responsible for the country's poor fiscal situation. However, this notion is baseless and ignores the fact that the Constitution of Pakistan was drafted and promulgated with consensus of elected representatives.

Recommendation

→ It is high time that ~~gove~~ realized that most of the human development activities such as education, social welfare, housing, water and sanitation, and even economic development are being undertaken by the provinces, which is not possible without proper fiscal space.
Therefore, instead of revising the NFE award, ~~gove~~ should focus on improving the economy. This is not just a suggestion, but a necessity if gove is to address the root causes of the current economic situation such as lack of investment, poor governance, and over-centralized system. It is only by doing so that gove can achieve its goals of a prosperous and self-sustaining Pakistan.