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Received:  
July 27, 2024

Revised:  
August 19,  
2024 &  
August 24,  
2024

Published:  
November 05,  
2024

**Journal of Politics and International Studies**  
*Vol. 10, No. 2, July–December 2024, pp.15–28*

## **Fiscal federalism in Pakistan: A critical analysis of 7<sup>th</sup> NFC award**

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### **Abstract**

Fiscal federalism is an intriguing phenomenon which deals with the distribution of various resources among the federating units of states. Federal systems are mounted upon written constitutions to devolve the powers between the central and provincial tiers. In this study, the 7th national finance commission award of Pakistan has been evaluated including challenges which jeopardized fiscal imbalance of Pakistani federation. In order to draw inferences, the researchers have adopted qualitative approach and used secondary sources of data. The inter-governmental structure has been used as a conceptual framework to assess the contours of 7th NFC award. As implemented in 2010, this award incorporated multiple factors for allocation of revenues among the federating units. Furthermore, the share of the provinces got enhanced from the divisible pool. The findings showed that in subsequent financial years, the federal government faced difficulties to meet its economic needs, while, the provinces had surplus finances. Although, 7th NFC award had positive vibes among the political forces, yet the sharing formula yielded such results that required further discussion to resurrect the recurring financial imbalance among the central and provincial governments.

**Key Words:** Fiscal Federalism, NFC Award, Pakistan, Resource Distribution, Challenges.

### **1. Introduction**

Federal system is an amalgamation of different tiers of government within a State. The federating units possess intermingling relationship in which the autonomy is preserved along with integration to the central government. (Mustafa, 2011). In such a polity, the units derive their fiscal as well as the political authority from the written constitution. This legal document holds primal position to culminate the bench mark for several authorizations of financial, legal and political spheres. The Federal system allows or permits the federating units to exercise a certain measure of powers

as sanctioned to implement their policies. The primacy of the federal system can be analyzed from the fact that 28 federal polities hold for world's 40% of total population. (Anderson, 2008). As regards the fiscal federalism, states adopt a uniform criterion or policy to distribute the financial resources among the units. In this scheme of things, the States constitute mechanisms such as national finance commission awards under which taxes or sources of income are collected and distributed both vertically cum horizontally. In this way, the units of the federation get some of the revenue from the central government and generate the remaining portion to meet their relevant needs.

The Islamic Republic of Pakistan is a federation having four provinces and two affiliated territories. The Constitution of 1973 provides a framework for the federating units and other administrative areas of Gilgit Beltistan & Azad Jamu Kashmir. (Waseem, 2010). In historical perspective, the Federation of Pakistan could be bifurcated in two phases; from 1947 to 1971 and post 1971 period. The first period was dominated by centralization with reference to the One-unit in West Pakistan. Whereas, the second phase had decentralization due to restoration of provincial autonomy of the Units in West Pakistan. (Dorosh & Niazi, 2006). 18<sup>th</sup> constitutional amendment passed in 2010 has been viewed as a landmark. It enhanced the autonomy of provinces manifold. (Galligan, 2010). However, the extent of autonomy has also been viewed with skepticism with a relatively weak central government with meager resources at its disposal.

National finance commission award is an arrangement in Federation of Pakistan under which the financial resources are pooled and distributed afterwards between the federal government and its federating units. Article 160 provides provisions for the distribution criterion on annual basis by the central government to its lower tiers. According to the Constitutional provisions, it is mandatory for the central government to constitute NFC award every five years to ensure the collection and subsequent transfer of revenues to the provinces. (Ahmad, et al. 2007). Before dwelling in to the 7<sup>th</sup> NFC award, a brief encapsulation of NFC awards has been entailed for better understanding. At the time of independence of Pakistan, the resource allocation was done under the Government of India Act of 1935. It was called the Niemeyer award. Pakistan adopted this scheme after the independence in 1947. (Pasha and Imran, 2010). However, this criterion was replaced with NFC under the Constitution of 1973. Since the implementation of this Constitution, Pakistan has passed 7 NFC awards to pool up and allocate resources among the federating units. (Javed & Ahmad, 2019). Amongst these awards, the first conclusive award was passed during Bhutto Regime in 1974. Subsequently, the NFC was passed in 1979, 1985, 1991, 1995, 1997 and 2010. (Arshad & Munir, 2019). The 7<sup>th</sup> NFC accentuated a paradigm shift in financial federalism in Pakistan by incorporating multiple criteria to allocate resources. The previous awards had mere population as a factor for distribution. Whereas, the 7<sup>th</sup> NFC included poverty, deprivation, inverse population density and other factors. These factors were incorporated on the long standing request of provinces except Punjab. The study intends to enquire the 7<sup>th</sup> NFC Award in Pakistan along with its implications which deteriorated the economic and fiscal balance of the Country.

## **2. Conceptual Framework**

The precept of fiscal federalism comes from a wider public finance discipline. Richard Musgrave, an American economist of German descent, first used the phrase in 1959. (Musgrave, 1961). Fiscal federalism is the separation of financial relationships between the diverse levels of government in a federation, such as income collection, allocation, and redistribution. (Khan, 2018). The financial and related obligations of the constituent parts of a federal framework are covered by this facet of federalism. Many federal taxes, grants, and transfers are made to state and municipal governments. Fiscal federalism involves vertical and horizontal transfer of funds and revenues. The vertical distribution implies top to bottom; whereas, the horizontal arrangement connotes the distribution among the units or at evenly matched tiers. (Sabir, 2010). As regards available arrangements of the fiscal federalism by different states, there are three distinct practices in federal systems.

### **2.1 Central agency or Federal ministry:**

In this institutional arrangement, the federal government performs the basic financial obligations and decides the financial fate of constituent units. The Central ministry of finance takes all the fundamental decisions to transfer or allocate the funds and revenues to the sub-national entities. This scheme is practiced in Kyrgyz republic, China, Japan, Italy, Poland etc. (Shah, 2007). Financial domination by the Central government is reflected in this structure.

### **2.2 Inter-governmental forum:**

In this constellation, there is a representation from different constituent units of the federation. All the representatives from various tiers decide the financial responsibilities under the penumbra of certain rules set forth by the constitution of the State. This institutional arrangement is observed by Germany, Indonesia, and Nigeria etc. Pakistan also follows this model to distribute the financial and other resources among the federating units. (Mustafa, 2011).

### **2.3 Independent agency:**

In this arrangement, the states appoint an independent forum or agency to recommend future course of action regarding collection and distribution of resources. Australia was the first state to adopt this scheme in 1933. India also appoints independent agency to assist the government on recommendations for the distribution of resources. (Iqbal and Ghani, 2012). With reference to the institutional arrangement in Pakistan, the inter-governmental forum has been used to take the decisions regarding fiscal responsibilities. The representatives from all the tiers of federation are constitutionally bound to ensure conformity after every five years. Since the implementation of the Constitution of 1973, NFC has been mandatory. (Khan, et al., 2021). However, its implementation has been inconsistent due to political and democratic challenges.

In most nations, intergovernmental fiscal transfers dominate the sub-national financial system. These transfers are frequently required when the federal government observes a significant disparity between the expenditure levels anticipated from local governments and the income possibilities from tax and non-tax sources allocated to local authorities. Intergovernmental transfers are required

for a federation like Pakistan due to the imbalance between spending responsibilities and revenue-raising capabilities. (Khalid & Hussain, 2018). The federal government collects revenue, which is then directly distributed to the provinces. (Nabi & Sheikh, 2010). In a federal system, the central government often supervises, lowers taxes, offers products and services, and redistributes funds. Several benefits of fiscal federalism have been identified by various theoretical justifications of the concept, like:

- Calculating the provinces' proportion of the federal divisible pool of taxes.
- Assessing the provincial and federal governments' financial requirements and the availability of resources (Mustafa, U. (2011).
- Encouraging intergovernmental collaboration along with fiscal obligations.

### **3. Research Methodology**

In this study, the researchers have enshrined qualitative method with analytical approach. Broadly speaking, the researchers use qualitative, quantitative or mixed method approach to draw inferences on the basis of problem statement, data collection and data interpretation. (Manen, 1990). Qualitative method revolves around the meanings and beliefs that human beings ascribe to certain events and phenomenon. In this method, the biases or subjectivities of the researchers and respondents are part of the study. Often the population sample is small but studied in detail to extract the results. (Creswell, 2007). In this study, the researchers have used both primary and secondary sources of data to analyze the 7<sup>th</sup> NFC Award with respect to fiscal federalism in Pakistan.

### **4. Composition and Functions of NFC**

According to the article 160 of the Constitution of 1973, the composition of the NFC is as follows:

“Within six months of the commencing day and thereafter at intervals not exceeding five years, the President shall constitute a National Finance Commission consisting of the Minister of Finance of the Federal Government, the Ministers of Finance of the Provincial Governments, and such other persons as may be appointed by the President after consultation with the Governors of the Provinces.” (Constitution of 1973).

As regards the primary functions of this constitutional body, the NFC is required to make recommendations to the president related to the division of net proceeds of the taxes levied and collected. It also gives suggestions regarding aids and other transfers by the federal government to the constituent's units. Furthermore, the NFC also supervises the powers incurred related to the borrowing for the federal tiers. (Pasha and Imran, 2010). Representatives from all different tiers of federation guarantee that notable points of view are considered during conversations. To develop a fair and equitable methodology for resource allocation, the NFC looks at several variables, including population size, revenue-generating potential, as well as socioeconomic indicators. This criterion for divisible pool has been transformed under 7<sup>th</sup> NFC which will be discussed afterwards. NFC also evaluates the financial requirements of both the federal and provincial governments. Each government's spending needs and revenue-generating potential are taken into account in this

mechanism. The goal is to distribute funds in a way that meets the financial requirements of all stakeholders. Ensuring inter-provincial equity is a significant factor in NFC discussions (Arshad, 2019). Thus, the NFC seeks to allocate resources in a manner that lessens inequalities and encourages balanced growth among all the provinces. During NFC meetings, the representatives engage in talks, bargaining, and consensus building. The objective is to get to a resource allocation agreement that is agreeable to all parties involved. The consensus-based methodology promotes governmental collaboration and cooperation across the federal and provincial levels.

## **5. Mechanism for distribution of resources**

In Pakistan, the distribution mechanism mainly comprises two sorts of resource distribution; systematic distribution and random distribution. There are two steps to organize resource transfers. The National Finance Commission Award determines the revenue allocation between the federal and provincial governments at the very initial stage. In the second stage, the Provincial Finance Commission transfers resources from the provincial to municipal levels. (Ahmad & Baloch, 2019). On the other hand, random transfers take the form of unique grants, presidential discretionary funds, parliamentary development funds, and so on. (Farooq, 2023).

### **• Sharing of Revenue via the NFC**

The Federation of Pakistan has a very centralized tax structure. To address both vertical and horizontal budgetary imbalances, the federal government gathers the majority of resources and afterward distributes them across the federal and its constituent components. The National Finance Commission, an independent body established by law every five years to promote transparent and apt resource allocation to safeguard Pakistan's fiscal resource distribution system. (Ali & Jalbani, 2011). In Pakistan's federal system, the National Finance Commission administers revenue sharing, which is undeniably the most common type of fiscal relationship between the federal and provincial levels. The NFC is required by the Constitution to assist in determining both the vertical and horizontal division of the net taxes between the provincial and federal governments. In this respect, the NFC decides either the percentage of federal funds that must be distributed to the regions under the terms of the constitution as well as the standards for doing so (Mustafa, 2011). The federal divisible pool consists of:

- All revenues gained by the federal government
- All loans raised by the federal government
- All federal government funds received as loan repayments.
- The division of certain taxes and charges between the federation and provinces.
- Grants to provincial governments.
- The ability of the federal and provincial governments to borrow money.
- Whatever other financial issue that has been presented to the Commission. (Ahmad, 2017).

## **6. The 7<sup>th</sup> NFC Award**

The 7<sup>th</sup> National Finance Commission (NFC) of Pakistan, which accentuated in 2010, was the country's fourth conclusive and transformative Award. The NFC, a constitutional body, is in charge of allocating financial resources between the federal as well as provincial governments of Pakistan. (Khan, 2021). The representatives from the central and provincial tiers conform the makeover of the body. The Commission is entrusted with mandate to determine as to how much revenue should go to the federal and provincial governments, specifically the divisible pool of revenues. The analysis of Pakistan's fiscal resource allocation is examined in the present research. Pakistan is a parliamentary federal constellation having capital territory, four provinces and administrative areas. (Javed & Ahmad, 2019). Most of the taxes are collected by the federal government and then distributed through the divisible pool. This distribution takes place between the federal government under vertical scheme, and among the provinces under the horizontal apparatus. (Iqbal and Ghani, 2012). The representatives of all provinces came to an excellent and tenable decision regarding the 7<sup>th</sup> NFC award on December 30, 2009, in Gawadar, Baluchistan, which was duly supervised and culminated by Prime Minister Syed Yousaf Raza Gillani to promote national unity as well as stabilize Pakistan's democratic system of government. It brought to a mutually agreed-upon award and amicably resolved long-standing disputes. At the time the seventh award was approved, there was no dissenting vote. The 7<sup>th</sup> NFC Award was a result of concessions made by large as well as small provinces around the nation. (Arshad & Munir, 2019). The methodology for establishing the vertical distribution from the level of the federal government to the provinces and the horizontal distribution within the provinces has undergone a number of significant modifications as a result of the 7<sup>th</sup> NFC Award.

### **• Distribution formula under 7<sup>th</sup> NFC Award**

It has been viewed as a step towards improvement of fiscal decentralization or addressing the issue of vertical equality in the federal fiscal system in a more significant way than in the past. The amount of annual resource transfers to the provinces has tripled under the seventh NFC Award, which took effect on July 1, 2010. In the very first year, the provinces' share went from 47.5% to 56%, and in the subsequent years, it increased to 57.5% (Khalid and Hussain, 2018). In other words, the enormous rise in federal transfers to the provinces under the 7<sup>th</sup> NFC Award has profoundly changed the nation's public finance system.

Secondly, the 7<sup>th</sup> NFC Award has made significant progress toward encouraging fiscal appropriation across provinces to decrease the horizontal imbalance. By deciding on a set forth novel criteria that extends beyond the population to determine the horizontal allocation of resources, it represents a turning point. By varying the distribution criteria, this prize made a positive effort to reduce the horizontal imbalance. (Khan & Malik, 2022). From independence until 2009, the sole factor used to determine how to distribute resources in Pakistan was the population. In the seventh NFC Award, a paradigm shift has been brought by incorporating new factors. In this Award, the percentage of every province in the overall share of the provinces is determined by four separate metrics, including fiscal ability, inverse population density, poverty or backwardness, and revenue creation. The population is given an 82% weight in this award, followed by poverty and backwardness

(10.3%), income creation and collection (5%), and inverse population density (2.7%). (Farooq, 2023).

The 7th NFC Award may have achieved its greatest success by the consensus on numerous factors as opposed to using population as the only foundation for income distribution. The only nation that divided revenues solely based on population was Pakistan. According to international practice, governments have employed an assortment of parameters for income sharing. The smaller provinces have profited from the inclusion of many variables. (Ali & Jalbani, 2011). Even though poverty, income mobilization, and inverse population density each have an average weight of 10.3%, 5%, or 2.7%, respectively, the population has continued to be the dominant indicator when contrasted with the other three included variables. (Waseem, 2010). However, the lesser-populated provinces specifically obtained significant financial relief to stabilize their failing fiscal conditions as a result of the expansion of the provincial share in the vertical distribution.

Other notable aspects of the Award include Sindh receiving an extra six billion rupees coming from the Federal government, which is equivalent to 0.66 percent of the provincial pool, as well as a decline in federal tax collection charges from 5 percent to 1.0 percent, thereby raising the divisible pool by 4 percentage points. In addition to the Federal government's promise to cover all costs of the war on terror, it has been acknowledged by all parties to give additional 1.0 percent of the divisible pool to KPK and accept sales tax revenue on services as a provincial subject matter which could potentially be gathered by the provinces. This is done in recognition of KPK's function as a frontline province in the fight against terrorism. (Ali, 2014).

Before the 7<sup>th</sup> NFC Award, the previous awards had troublesome factors that hindered a mutually agreed scheme among the federating units. Historically, the kind of taxes for the divisible pool, the quantum of the pool itself, the distribution criterion and other factors presented difficult propositions for the NFC. (Nabi & Sheikh, 2010). However, the 7<sup>th</sup> NFC succeeded to resolve these hindrances to conclude a unanimous way forward for the Federation.

The 7<sup>th</sup> NFC Award's main accomplishment was its recognition of fiscal needs of Pakistan's federal structure. With enhanced fiscal decentralization, provinces would be able to fulfill their constitutional obligations to provide their respective populations with social amenities like healthcare, basic infrastructure for schooling, and addressing sanitation as well as water. The award made a significant leap in giving the provinces a larger budgetary space so they could provide high-quality social services to the public and afterward be held accountable for their actions.

## **7. Critical Appraisal of 7th NFC Award**

The 7th NFC Award has been viewed as a strategy to give the provinces more control over resource distribution as well as lessen the influence of the Federal government (Iqbal & Ghani, 2013). The 7<sup>th</sup> NFC Award, which was declared in 2010, is an amendment to the Constitution that establishes how funds are allocated between the federal government and the provinces. Population, revenue generation, and other criteria are taken into consideration in the formula used to determine the distribution. The 7<sup>th</sup> NFC Award was viewed as an important milestone towards more fiscal decentralization as well as provincial autonomy in Pakistan. (Arshad &

Ali, 2019). The 7<sup>th</sup> NFC Award has important consequences. The provinces currently obtain a greater share of resources than they previously carried out, which has served to multiply the funding among the provincial governments. (Ahmad & Baloch, 2019). Provinces can now better afford their development initiatives, this would have resulted in higher economic development in the provinces.

This paradigm shifts in the fiscal federalism resulted to address the long standing grievances of provinces. Population being the sole criterion for resource distribution benefited the province of Punjab. This populous province received a major chunk from the divisible pool on this very formula. (Khan & Malik, 2022). Other provinces such Balochistan raised the concerns regarding backwardness and density of population with respect to large territory. The 7<sup>th</sup> NFC Award included both the factors to distribute the resources. The province of Sindh had the demand in purview of income generation. Likewise, the KPK province got badly hit by terrorism, it demanded more share to resurrect the infrastructure. (Rehman & Khan, 2010). Subsequently, the 7<sup>th</sup> NFC Award created history by incorporation of new factors.

The new fiscal formula resulted in reduced revenue for the financial responsibilities of federal government. Overall, the share of the central government got reduced at meager 37.5% to carry out its financial obligations. Apparently, the enhanced fiscal space for the federating units satisfied the provinces. Consequently, this major cut has placed financial burden on the central government. Over the last many years, the burden of debt has increased manifold for the federal government. At the same time, the provinces are having surplus revenue. The provinces could not develop adequate infrastructure and mechanisms for the proper and transparent utilization of the resources. (Khalid & Hussain, 2018). This deficit on part of federal government and surplus for provinces has created a paradoxical fulcrum in Pakistan. Voices have been raised for resurrections in this scheme to address this irony. A financially weak central government could not serve the State in an appropriate manner. Let's put these ramifications in discrete manner.

- **Federal government's reduced finances:** While certain individuals see the federal government's diminished involvement as a positive consequence, some believe that it has undermined the central government's capacity to execute national programs and regulations (Ghani, (2012).
- **Higher provincial liabilities:** The greater transfer of resources to provinces has additionally resulted in a rise in provincial responsibilities. Critics declare that such an action might lead to fiscal instability along with hampering economic progress. (Khan, 2018).
- **Lack of transparency:** Some critics believe that the 7<sup>th</sup> NFC Award resource distribution is missing transparency, making it impossible for verification that resources are being utilized effectively and correctly.
- **Political squabbles:** The allotment of resources under the 7<sup>th</sup> NFC Award resulted in political squabbles amongst provinces as well as the central government. However, others are concerned that this might weaken the country's stability and contribute to more political upheaval. (Ahmad Baloch, 2019).



### **1.7 Assessment of Provincial Performance in post 7<sup>th</sup> NFC Award**

With any stretch of imagination, the 7<sup>th</sup> NFC Award was unprecedented and created an unparalleled consensus among the stake holders in the Federation. At the same juncture, the repercussions have reflected certain areas to be addressed. Some of the critics have showed concerns over the exploitation of the factor of backwardness and remoteness in Provinces. (Galligan, 2010). Critics believe that this very criterion may be misused by showing fabricated backwardness on part of the federating units to extract the funds under this domain. In order to control such prejudice, the Federal government must develop strong and transparent monitoring evaluation mechanisms to assess the actual situation at local level and examine the developmental expenditure estimated and done afterwards. (Farooq, 2023).

In the meanwhile, there has been a debate to evaluate the projected values of different heads and their actual accomplishments on part of federal and provincial governments. For instance, the federal transfers were estimated to increase by 24%, but they could be raised up to 22% only. As a result, the provincial developmental expenditure of provinces increased only by 13.6%, which was estimated to raise by 37 % (Khan & Ahmad, 2021). On the other hand, the provincial current expenditure of the provinces was projected to increase by 14%, which grew up to 16.4%. This discrepancy in the set targets and achievements showed that the developmental expenditure could rise as desired and targeted by the 7<sup>th</sup> NFC Award. Likewise, the allocation for poverty elimination remained at 7.6% of GDP (Arshad & Ali, 2019). It did not change. In post 7<sup>th</sup> NFC Award, it was observed that the provinces enhanced their focus on subjects like education and health. However, the areas such as environment, climate have received less focus and attention.

Despite having focus on education at provincial level, the results have reflected the picture otherwise. For example, in Punjab, the enrollment at primary level schools has increased from 62% to 64%, which is negligible. In KPK, the net result of enrollment in primary schools has been increased from 52% to 54% only. Whereas, in Sindh and Balochistan, the results have shown negatively skewed data. It reduced from 54% to 49% and from 44% to 39% in Sindh and Baluchistan respectively (UNDP, 2015). After the 18<sup>th</sup> constitutional amendment and enhanced funds under 7<sup>th</sup> NFC Award, the provinces have full array of authority and funds for education. Therefore, the results have been unsatisfactory. This also showed the inefficiency on part of the provinces to translate the developmental expenditures at grass-root level to improve the socio-economic conditions of public.

Critics believe that this unsatisfactory performance by the provinces in post 7<sup>th</sup> NFC Award is due to weak administration and lack of monitoring evaluation systems. The provinces could not enhance their capacity building after receiving enhanced revenues from the Federal government (Mustafa, 2011). Subsequently, the provinces have been in an ironical situation where the revenues have been available, but the insufficient infrastructure has hindered their performance. Along with it, the inadequate transfer to the local level by the provinces also created less development. The share of local governments under PFC has been 24% in Punjab, 6% in Sindh and 4.3% in KPK. (UNDP, 2015). This meager amount for the relevant local areas could not yield better results for the public in their social services.

## **7.2 Concerns of IMF on 7<sup>th</sup> NFC Award**

The fragile economy of Pakistan has induced a consistent rescue plan from the International Monetary Fund. Since the 7<sup>th</sup> NFC Award in 2010, different voices have been heard in its favor along with dissenting notes as well. Pakistan has taken financial refuge from IMF 20 times before the 7<sup>th</sup> NFC Award and four times after its implementation in 2010. (Dawn, March 25, 2024). The multiple factor criterion and enhanced share of the provinces in the divisible pool has raised various questions regarding weak financial position of federal government and surplus finances with the provinces. IMF has been no exception in this respect to register the concerns over the surplus budgets of the provinces. It has been an instrumental institute to issue directions for the states to resurrect financial imbalances. Since 2018, the focus of IMF has been on the financial balance left for the Federal government as opposed to their previous position of budget deficit. In financial year of 2024-25, the Government of Pakistan has agreed to place partial cuts on transfers to the provinces. Federal government has also conveyed to IMF regarding surplus budgets of provinces of around Rs.1.2 trillion. (Dawn, June 9, 2024). IMF has its stated stance for federal government to regain this financial balance from the provinces to reduce its debt burden.

## **8. Conclusion**

Fiscal federalism has been an orthodox phenomenon coined in latter half of 20<sup>th</sup> century. Succinctly, the federal system connotes to the division of powers between the central government and federating units. Generally, the single factor and multiple factor approaches have been employed for the functioning of resource distribution in the federating state. The Islamic Republic of Pakistan is a federation, drawing its powers from the Constitution of 1973. NFC or the National Finance Commission is a constitutional arrangement in Pakistan, which is entrusted with the responsibility to set forth the criterion regarding distribution of resources for five years. The researchers have conceptualized the work under the model of inter-governmental structure, which involves different tiers to distribute the resources. The 7<sup>th</sup> NFC Award, which was enshrined in 2010, incorporated multiple factor scheme for the distribution of the resources. Before this Award, Pakistan had only population as a factor for the revenue distribution. Under the 7<sup>th</sup> NFC Award, the new factors of inverse density of population, backwardness and income generation were included. Along with it, the overall share of the provinces has been increased from 46% to 57.5%. The share of affiliated areas is separately allocated by the Federal government. As per the latest scheme of distribution, federal government has only 37.5% of the total share of divisible pool. Subsequently, the provinces are enjoying surplus budget and central government is running short of finances to meet its expenditures. In post 7<sup>th</sup> NFC Award, insufficient infrastructure or lack of capacity building has been regular feature of provincial governments. As a result, IMF has raised concerns over the extensive allocation of revenues to the provinces. However, the government is facing difficulty to overturn the decisions due to domestic pressure of political parties. Since they know that the Federal government would step in to save them, provincial governments often pledge to spend for which they lack the necessary finances.

## **9. Way forward**

- The provinces must have adequate administrative ability and be held responsible for the apt utilization of resources.
- To guarantee a seamless and effective allocation of intergovernmental resources, specialized and autonomous mechanism should be created. In addition, a permanent NFC entity with a specialized secretariat and subject-matter experts serving as consultants is required.
- More factors should be included in the criterion for addressing horizontal resource distribution to assure efficiency and reduce the trust deficit among federating units.
- The seventh NFC Award would be successful if the Federal government and, more importantly, the provincial governments exercise budgetary restraint in an entire financial year.
- To allow an improve evaluation of subnational revenue potentials or boost resource flow transparency, data accessibility, and accuracy of developmental expenditure would serve the purpose in future.

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