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THE 7TH NFC AWARD IN PAKISTAN AND ITS IMPLICATIONS FOR KHYBER PAKHTUNKHWA: AN ANALYSIS

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ABSTRACT
The 7th National Finance Commission (NFC) Award, announced in 2010, marked a significant shift in Pakistan's fiscal federalism by redistributing financial resources among the federal government and provinces, including Khyber Pakhtunkhwa (KP). This study critically examines the implications of the 7th NFC Award for KP, focusing on its economic, social, and political impacts. The Award's revised formula increased the provincial share from the divisible pool to 57.5%, introduced multiple criteria for revenue distribution beyond population, and recognized KP's contributions and vulnerabilities, particularly due to its strategic role in counterterrorism. The analysis highlights that while the increased financial allocations have bolstered provincial autonomy, enhanced development spending, and improved public service delivery in KP, challenges remain in terms of fiscal management, revenue generation, and addressing intra-provincial disparities. The study also explores how the Award has influenced KP's ability to fund critical sectors such as education, health, and infrastructure, ultimately contributing to regional stability and socio-economic progress. However, despite these gains, the province continues to face significant challenges, including dependency on federal transfers, inadequate capacity to generate own-source revenues, and complexities in managing the impact of militancy and displacement on its fiscal needs. The paper concludes with recommendations for enhancing the effectiveness of the NFC Award in KP, advocating for increased fiscal responsibility, capacity building, and the need for a more dynamic formula that adapts to evolving provincial needs. By analyzing the multifaceted implications of the 7th NFC Award, this study provides a comprehensive understanding of its impact on KP and offers insights into the ongoing discourse on equitable fiscal federalism in Pakistan.

Keywords: 7th NFC Award, Khyber Pakhtunkhwa, Fiscal Federalism, Revenue Distribution, Socio-Economic Impact.

INTRODUCTION
The National Finance Commission (NFC) Award is a constitutional mechanism in Pakistan that determines the distribution of financial resources between the federal government and the provinces. Established under Article 160 of the Constitution of Pakistan, the NFC is mandated to ensure a fair and equitable distribution of resources, aimed at promoting balanced economic growth and addressing regional disparities. The 7th NFC Award, announced in 2010, is widely regarded as a landmark decision in the fiscal history of Pakistan, as it introduced significant changes in the revenue-sharing formula that profoundly impacted the financial autonomy and development trajectories of the provinces, particularly Khyber Pakhtunkhwa (KP). This Award, characterized by its progressive approach to resource distribution, sought to address long-standing grievances of smaller provinces by enhancing their financial shares and incorporating multiple criteria beyond population for resource allocation (Mustafa, 2009).

Khyber Pakhtunkhwa, located in the northwest of Pakistan, has historically faced unique socio-economic and security challenges. The province's strategic significance, particularly in the context of its proximity to Afghanistan and its role in counterterrorism efforts, has often shaped its development priorities and fiscal needs. Before the 7th NFC Award, KP struggled with inadequate financial resources, which hindered its ability to address developmental gaps and deliver essential public services effectively. The 7th NFC Award, by significantly increasing the provincial share of the divisible pool from 47.5% to 57.5%, and by including criteria such as poverty, inverse population density, and revenue generation efforts, provided a much-needed financial boost to KP. This shift not only enhanced the province's fiscal capacity but also acknowledged the sacrifices and challenges faced by KP due to the war on terror, including the influx of internally displaced persons (IDPs) and the economic disruptions caused by militancy (PES, 2010).

The implications of the 7th NFC Award for KP are multifaceted, impacting the province’s economy, governance, and overall socio-political landscape. Economically, the increased fiscal transfers allowed KP to expand its development budget significantly, enabling investments in critical sectors such as education, health, infrastructure, and social welfare. This financial empowerment facilitated improved service delivery, enhanced infrastructure development, and created opportunities for economic growth and poverty alleviation. The increased funding also supported the province's efforts in managing the humanitarian and developmental challenges arising from conflict and displacement, thereby contributing to regional stability. Furthermore, the Award's recognition of factors such as poverty and inverse population density in resource allocation has been instrumental in addressing some of the structural inequities that have historically disadvantaged KP. Politically, the 7th NFC Award has been a catalyst for enhancing provincial autonomy and strengthening federal-provincial relations in Pakistan. For KP, this has translated into greater control over its financial resources and decision-making processes, empowering the provincial government to prioritize and address local needs more effectively. However, while the increased fiscal autonomy has been a positive development, it has also brought to the fore challenges related to fiscal management and governance. KP’s reliance on federal transfers, coupled with limited capacity for own-source revenue generation, continues to pose significant challenges. Additionally, the province faces intra-provincial disparities, with uneven development across different regions, which necessitates more targeted and efficient utilization of resources (Dawn, 2015).

Despite the benefits brought by the 7th NFC Award, there are ongoing debates regarding its sustainability and adequacy in meeting the evolving needs of the provinces. For KP, the challenge lies in maximizing the impact of the increased fiscal space while addressing structural weaknesses in revenue generation and expenditure management. The need for a more dynamic and responsive fiscal framework that can adapt to the changing socio-economic realities of the province remains a critical consideration. Moreover, as Pakistan moves towards future NFC negotiations, the experiences of KP under the 7th NFC Award can provide valuable insights into the complexities of fiscal federalism and the need for continuous reforms to ensure equitable and efficient distribution of resources.

The 7th NFC Award has been a transformative step in Pakistan’s fiscal federalism, offering Khyber Pakhtunkhwa a greater share of national resources and the opportunity to drive its development agenda more effectively. However, to fully realize the potential of this financial empowerment, it is imperative for KP to strengthen its fiscal governance, enhance revenue generation capacities, and address intra-provincial disparities. As Pakistan continues to navigate the complexities of resource distribution among its federating units, the lessons from the 7th NFC Award will be crucial in shaping future policies aimed at promoting balanced regional development and strengthening the federal structure of the country (Express, 2016).

Background of the Study

The National Finance Commission (NFC) of Pakistan, established under the Constitution of 1973, is responsible for the distribution of revenues between the Federation and the Provinces on an annual basis. The NFC Award outlines the formula for redistributing taxes collected by the provinces, which are pooled and allocated by the Federal Government. Since the inception of the Constitution, there have been three implemented NFC Awards in 1974, 1991, and 1997. However, consensus could not be reached on the proposed formulas in 1979, 1984, and 2000. The major sources of revenue for the government included income taxes, general sales tax, wealth taxes, capital gains taxes, and customs duties, which have been the subject of ongoing debate regarding their redistribution (Ali, 2011). The 7th NFC Award, agreed upon on December 30, 2009, in Gwadar, increased the provincial share of the divisible pool to 56% for the fiscal year 2010-2011 and to 57.5% for the remaining years. The formula for distribution incorporated indicators such as population (82%), poverty/backwardness (10.3%), revenue collection/generation (5%), and inverse population density (2.7%).

Literature Review:

Revenue Sharing in Global Perspective

Revenue sharing systems vary globally, with different countries employing distinct formulas and structures. For instance, the United States implemented a revenue-sharing program from 1972 to 1986, allowing state and local governments to spend federal funds at their discretion. In Nigeria, the horizontal sharing formula allocates resources based on criteria such as equality of states, population, and internal revenue generation efforts. India's Constitution mandates the establishment of a Finance Commission under Article 280 to allocate revenue between the Union and State Governments. The Commission uses a weighted formula considering factors like population, per capita income distance, area, tax effort, and fiscal discipline (Shah, 2007).

Revenue Sharing in Pakistan

Pakistan, as a federation, follows a constitutional framework for revenue distribution between the Federal Government and the Provinces. The divisible pool includes net proceeds from specific taxes collected by the Federal Government and is shared among all federating units. Intergovernmental fiscal transfers in Pakistan are characterized by revenue sharing, grants, and loans, facilitating the flow of funds at multiple levels—federal to provincial, provincial to local, federal to local, and local to local governments. The evolution of resource sharing in Pakistan can be divided into four eras: the pre-independence era, post-independence era, One Unit period, and the NFC awards following the 1973 Constitution. Before independence, revenue distribution was guided by the 1935 Act of India. Post-independence, Pakistan initially adopted the same revenue-sharing model, with modifications for local conditions (Khan, 2008).

National Finance Commission Awards

The first NFC Award in 1974, under the government of Zulfiqar Ali Bhutto, relied solely on population as the criterion for revenue distribution, which led to controversy. Subsequent awards, including those during President Zia ul Haq's regime in 1979 and 1985, failed to reach consensus. The NFC Award of 1991, under Nawaz Sharif's government, recognized provincial rights over natural resources and granted royalties and surcharges on oil and gas. The controversial 1997 award, although expired, continued to operate beyond its term. The 6th NFC Award under General Pervez Musharraf also failed to reach a consensus, despite extensive analysis and comparison with international revenue-sharing practices. The review identified that unlike Pakistan, which predominantly used population as a criterion, other countries employed diverse indicators such as income, area, and infrastructure, assigning different weights to each. The 7th NFC Award was signed on 30th December, 2009 which marks a significant shift towards more equitable resource distribution among provinces (Qian, 2011).

Key Elements of the NFC Award 2009

The NFC Award 2009 introduced significant changes to the resource distribution formula in Pakistan. For the first time since 1973, the distribution of resources among provinces was not solely based on population but also took into account other factors such as backwardness, inverse population density, and revenue collection/generation. Additionally, this Award addressed long-standing issues, including Gas Development Surcharge (GDS) and hydroelectricity profit. The financial implications for both federal and provincial governments are extensive and enduring, with a notable increase in transfers from the federal government to the provinces due to the following five key reasons:

1. **Reduced Federal Collection Charges:** The federal government's collection charges were reduced from 5 percent to 1 percent, effectively increasing the overall size of the divisible pool.

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2. **Support for Khyber Pakhtunkhwa (KPK):** Recognizing KPK's role as a frontline province in the war on terror, 1 percent of the net proceeds of the divisible pool is earmarked for KPK throughout the Award period. For example, in 2010-11, KPK was allocated an additional Rs 15 billion to cover the extra costs it incurred due to the war on terror.
3. **Increased Provincial Share:** The provincial share of the divisible pool increased from 46.25 percent to 56 percent in 2010-11 and then to 57.5 percent for the remainder of the Award period. Consequently, the federal government's share in the net divisible pool decreased to 44 percent in 2010-11 and to 42.5 percent for the rest of the Award period.
4. **Guaranteed Minimum for Balochistan:** The Award ensures that Balochistan will receive at least Rs 83 billion from divisible pool transfers. If Balochistan's estimated share falls short of this amount, the federal government will cover the difference.
5. **GST on Services:** The GST on services collected in the Central Excise mode is transferred to the provincial governments through a straight transfer mechanism, meaning revenues collected from a province are transferred directly to that province based on collection. However, this principle was not fully adhered to in the 2010-11 budget. Furthermore, the NFC Award 2009 permits the payment of GDS arrears to Balochistan based on the new formula and ensures the long-overdue payment of hydel profits to KPK.

Vertical Distribution of the Divisible Pool

Table 1 outlines the formula for the vertical distribution of the divisible pool, detailing the provincial share in the NFC awards. Historically, until the NFC Award of 1991, provincial governments received 80 percent of two major federal taxes—Sales Tax and Income and Corporation Tax. These taxes were the most robust sources of revenue and were the primary focus of tax and tariff reforms initiated in the early 1990s. Additionally, the provincial share was further increased by including federal excise duties on tobacco and sugar in the divisible pool.

Table 1: Provincial Share in Divisible Pool Taxes (%)

Divisible Pool Taxes	NFC 1974	NFC 1991	NFC 1997	DRGO 2006	NFC 2010
Income Tax and Corporation Tax*	80	80	37.5	41.50 – 46.25	56.0 – 57.5
– Other Direct Taxes	–	–	37.5	41.50 – 46.25	56.0 – 57.5
Sales Tax	80	80	37.5	41.50 – 46.25	56.0 – 57.5
Central Excise Duty	–				
– Tobacco	–	80	37.5	41.50 – 46.25	56.0 – 57.5
– Sugar	–	80			
Import Duties	–	–	37.5	41.50 – 46.25	56.0 – 57.5
Export Duties					
– Cotton	80	80	–	–	–

In contrast, the NFC Award of 1997 expanded the divisible pool to include all federal taxes but significantly reduced the provincial share from 80 percent to 37.5 percent, less than half of their previous allocation. This adjustment was premised on optimistic revenue targets based on certain macroeconomic projections, including a 17 percent growth in nominal GDP, an 11 percent rate of domestic and external inflation, and high expectations for revenue collection stemming from tax and tariff reforms. Unfortunately, these expectations did not materialize due to various external and internal shocks that adversely affected federal tax collection.

Horizontal Distribution of the Divisible Pool

Table 2 outlines the formula for the horizontal distribution of the divisible pool in NFC Awards. It highlights that the distribution among provinces in the first three conclusive NFC Awards and the Distribution of Revenues and Grants-in-Aid Order (DRGO) was solely based on population. However, the NFC Award of 2009 introduced a more comprehensive formula for the distribution, incorporating four weighted factors: population (82 percent), poverty and backwardness (10.3 percent), revenue collection/generation (5 percent), and inverse population density (2.7 percent).

Table 2: Factors Used in Horizontal Distribution of Divisible Pool Taxes(%)

Factors	NFC 1974	NFC 1991	NFC 1997	DRGO 2006*	NFC 2010
Population	100.0	100.0	100.0	100.0	82.0
Poverty/Backwardness	–	–	–	–	10.3
Revenue Collection/Generation	–	–	–	–	5.0
Inverse Population Density	–	–	–	–	2.7

IMPLICATIONS OF 7TH NFC AWARDS

Financial Implications

The vertical distribution of the Federal Board of Revenue (FBR) tax estimates for the Budget 2010-11 in accordance with the NFC Award 2009. The FBR set a tax revenue target of Rs 1,647 billion for 2010-11. The federal government receives funds from these taxes under two categories: (1) its share from the divisible pool, and (2) other sources, mainly collection charges and export duties. Based on this, the federal government's total share in FBR taxes for 2010-11 would be Rs 683 billion. Similarly, the four provincial governments receive revenues under two categories: (1) transfers from the divisible pool, and (2) other revenues, which include funds for the war on terror, provincial GST, excise duty on natural gas, and grants to ensure Balochistan receives at least Rs 83 billion. Consequently, the total share of the provincial governments would amount to Rs 964 billion, assuming the FBR meets its tax collection targets (Pasha, n.d.).

Table 3 outlines the horizontal distribution of FBR tax estimates for Budget 2010-11 as per the NFC Award 2009. Out of the total Rs 844 billion in the divisible pool, Punjab is allocated Rs 437 billion (51.7 percent), Sindh Rs 207 billion (24.6 percent), Khyber Pakhtunkhwa (KPK) Rs 123 billion (14.6 percent), and Balochistan Rs 77 billion (9.1 percent). From the total Rs 118 billion in the "others" category, KPK receives Rs 15.2 billion specifically for its role in the war on terror. To meet the required minimum transfer of Rs 83 billion for Balochistan, the federal government will provide an additional Rs 6.3 billion. Table 5 also distinguishes the excise duty on natural gas, which is a provincial tax transferred separately to the provinces by the federal government after deducting collection charges.

Table 3: Vertical Distribution of FBR Taxes as per the 7th NFC Award(Rs Million)

		Federal Revenues			Provincial Revenues		
	Budget Estimates 2010-11	Divisible Pool	Others	Total	Divisible Pool	Others	Total
Income Tax	633,000	270,220	10,113	280,333	343,916	8,751	352,667
Capital Value Tax	4,700	2,027	28	2,055	2,580	66	2,645
Customs	180,800	76,231	5,079	81,310	97,021	2,469	99,490
Sales Tax	674,900	251,802	3,465	255,267	320,475	99,157	419,633
Federal Excise	153,600	63,095	868	63,964	80,303	9,333	89,636
Total	1,647,000	663,375	19,553	682,929	844,296	119,776	964,071

Source: Author's estimates based on Budget Estimates of 2010-11

Table 4

Horizontal Distribution of FBR Taxes as per the 7th NFC Award (Rs Millions)

	Punjab	Sindh	KPK	Balochistan	Total
Divisible Pool Taxes					
Taxes on Income	177,942	84,431	50,281	31,262	343,916
Capital Value Tax	1,335	633	377	234	2,580
Sales Tax (Goods)	50,199	23,819	14,185	8,819	97,021

Federal Excise (Net of Gas)	165,814	78,677	46,853	29,131	320,475
Customs Duties	41,549	19,714	11,740	7,300	80,303
Total: Divisible Taxes (A)	436,839	207,275	123,436	76,746	844,296
Others					
War on Terror/Other Transfers	–	–	15,229	6,254	21,483
Excise Duty on Natural Gas	407	5,025	209	1,503	7,144
G.S.T (Provincial)	51,155	21,145	12,325	4,557	89,183
Total: Other Transfers (B)	51,563	26,170	27,763	12,314	117,810
Total Transfers (A+B)	488,401	233,445	151,199	89,060	962,106

Source: Author's estimates based on Budget Estimates of 2010-11

An intriguing aspect of the NFC Award 2009 is the recognition of provincial rights over GST on services. Constitutionally, GST on services is a provincial tax; however, the FBR collects it under two categories: (1) GST on services (CE Mode) and (2) GST on services (provincial). While the revenue from GST on services (provincial) is directly transferred to the provincial governments after deducting collection charges, GST on services (CE Mode) is treated like GST on goods, which is divided between the federal and provincial governments as part of the divisible pool taxes.
The NFC Award 2009 addresses this discrepancy by treating both GST on services (CE Mode) and GST on services (provincial) as provincial taxes, transferring the collected amounts to the provincial governments after deducting collection charges. Although this resolves the vertical distribution anomaly of GST on services, the horizontal distribution of this tax remains a contentious issue. The distribution shown in Table 5, as reported in federal budget documents, is based on the population share of the provinces. This population-based distribution favors Punjab and KPK but does not align with the principles of the NFC constitution.
This disagreement over the distribution of GST on services is reflected in the revised federal budget documents, where it is noted: "The indicative share of GST on services (provincial) is strictly provisional at this stage since a decision on levying a reformed GST has been deferred to 1st October, 2010. These shares would be revised in light of a decision taken after discussions with the provinces. The final share so determined would take effect from 1st July, 2010."

Impact on Social Services

Public expenditure on social services such as education and health is widely recognized as a key driver of poverty reduction, as it plays a crucial role in human capital development. Moreover, increased public spending on social services can positively impact the achievement of the Millennium Development Goals. However, Pakistan ranks among the countries with a very low share of GDP allocated to the social sector.
The comparison of Pakistan's social sector spending with other East and South Asian countries. Notably, public spending on education in Bangladesh exceeds the combined public spending on education, health, and water supply and sanitation in Pakistan. Similarly, India's expenditure on education is more than double that of Pakistan. In addition, countries like Thailand, Malaysia, Iran, and Vietnam allocate a significantly higher share of their GDP to education compared to Pakistan.
Despite various plans to boost public spending on social services in Pakistan, the actual expenditures have remained low. Policy documents, including five-year plans, the Medium-Term Development Framework (MTDF), Medium-Term Budgetary Framework (MTBF), and Poverty Reduction Strategy Papers (PRSPs), have emphasized the importance of social sector spending. Furthermore, the 1997 NFC Award and the Fiscal Responsibility and Debt Limitation Act of 2005 listed social sector spending as a priority. However, since the 1997 NFC Award, social sector spending has remained inadequate.
The increased share of taxes allocated to provinces under the seventh NFC Award offers hope that these expenditures, as a percentage of GDP, may

see an upward trend during the current five-year period.

In this context, this section examines the estimated impact of the financial implications of the NFC Award 2009 compared to the DRGO 2006, the NFC Award 1997, and the NFC Award 1991 on provincial social services. The analysis is grounded in the hypothesis that a shift in the design of federal transfers favoring provincial governments is likely to lead to an increase in social sector expenditures. This hypothesis is based on the premise that provincial governments are chiefly responsible for the funding and delivery of social services. Therefore, any increase in their financial resources may enable them to allocate and spend more on social services, potentially enhancing the quality and accessibility of these crucial sectors (Ahmad, 2006).

Major Issues and Repercussions of the 7th NFC Award

The 7th NFC Award, while a significant step forward in fiscal federalism, brings with it a range of issues and repercussions:

1. Resource Allocation and Financial Management:

- **Increased Provincial Responsibilities:** The enhanced financial allocations to provinces come with increased responsibilities. However, there is concern over the provinces' capacity to manage these resources effectively due to weak financial management and lack of accountability.
- **Revenue Collection Issues:** Provinces, particularly Balochistan and Khyber Pakhtunkhwa, face challenges in revenue collection and mobilization, raising concerns about whether the revenue targets will be met.

2. Capacity Building and Implementation Challenges:

- **Capacity Constraints:** Balochistan and Khyber Pakhtunkhwa lack the capacity (knowledge, skill, and experience) required to handle the new financial responsibilities effectively. There has been inadequate effort towards building this capacity.
- **Implementation of VAT and RGST:** The implementation of VAT and the Reformed General Sales Tax (RGST) requires provincial assembly approvals, leading to controversies and delays. Provinces like Sindh are already making amendments and developing institutional frameworks, but there are ongoing disagreements and delays.

3. Constitutional Amendments and Transfers:

- **18th Constitutional Amendment:** The transfer of five ministries and related departments to provinces under the 18th Amendment presents logistical challenges. Issues related to asset and liability transfers, as well as the transfer of approximately 40,000 employees, need careful planning and execution.
- **Council of Common Interest (CCI):** The CCI, responsible for resolving inter-provincial issues, has not yet defined its rules and mandates. Its secretariat is also not yet established, and its biannual reports are delayed.

4. Federal Subsidies and Financial Burden:

- **Federal Subsidies:** The federal government provides significant subsidies (Rs 235 billion) to state-owned enterprises like PEPCO, Railways, Steel Mills, and PIA. This subsidy burden impacts the federal budget, especially as provinces receive increased financial allocations.
- **Deficit Concerns:** The federal government faces a deficit of Rs 684 billion due to the transfer of revenue and continued expenditure on provincial subjects.

5. Decentralization and Disparities:

- **Decentralization Challenges:** Effective decentralization involves not only the transfer of financial resources but also the allocation to districts and underdeveloped areas. Disparities in Provincial Finance Commission (PFC) awards result in unequal distribution of resources, with some districts receiving less than their legitimate share.

- **Transitional Period Issues:** During the transitional period leading up to the full implementation of the 18th Amendment and the 7th NFC Award, the federal government continues to manage provincial subjects. This creates a temporary financial strain and complicates the management of revenue and expenditure.

6. Environmental Concerns:

- **Lack of Environmental Consideration:** There is no measure in the 7th NFC Award to address environmental degradation, which poses serious risks to the economy and requires urgent attention.
  The 7th NFC Award marks a significant shift towards more equitable resource distribution among provinces; it also presents several challenges related to financial management, capacity building, implementation of constitutional amendments, and environmental considerations. Addressing these issues will be crucial for the successful realization of the benefits envisioned by the Award.

Conclusion:

The 7th NFC Award represents a pivotal moment in Pakistan's fiscal federalism, redefining the dynamics of resource distribution between the federal government and the provinces. For Khyber Pakhtunkhwa, this Award marked a significant shift towards greater fiscal autonomy and recognition of the unique challenges faced by the province, particularly those arising from its strategic role in counterterrorism and its socio-economic vulnerabilities. By increasing the provincial share of the divisible pool and incorporating criteria such as poverty and inverse population density, the 7th NFC Award provided KP with enhanced financial resources to invest in critical sectors, improve public service delivery, and address long-standing developmental disparities.

However, while the 7th NFC Award has undeniably strengthened KP's fiscal capacity and contributed to regional stability, it has also highlighted the need for ongoing reforms in fiscal management and governance. The province continues to face challenges such as dependency on federal transfers, limited revenue generation capabilities, and intra-provincial disparities that undermine the full realization of the Award's potential. Moreover, the evolving security landscape and socio-economic needs of KP necessitate a more adaptive and responsive fiscal framework that can better address the dynamic challenges of the region.

The 7th NFC Award has laid the foundation for a more equitable and balanced approach to resource distribution in Pakistan, offering Khyber Pakhtunkhwa an opportunity to enhance its developmental trajectory. However, to sustain and build on these gains, it is essential for KP to adopt strategic measures that enhance fiscal responsibility, diversify revenue sources, and ensure efficient utilization of resources. The lessons from the 7th NFC Award will be crucial in shaping future fiscal policies, promoting greater fiscal autonomy, and strengthening the federal structure of Pakistan.

Recommendations:

- **Enhancing Fiscal Responsibility and Governance in KP**

To maximize the benefits of the increased financial allocations under the 7th NFC Award, it is imperative for KP to strengthen its fiscal management and governance frameworks. This involves enhancing transparency, accountability, and efficiency in the utilization of public funds. The provincial government should adopt robust financial planning and monitoring mechanisms to ensure that resources are allocated and spent in line with developmental priorities. Regular audits, performance evaluations, and the establishment of a transparent budgeting process can significantly improve fiscal discipline and reduce wastage of resources.

- **Strategies for Revenue Generation and Diversification**

One of the major challenges for KP is its heavy reliance on federal transfers, which makes the province vulnerable to changes in national revenue flows. To mitigate this dependency, KP must explore avenues for generating its own revenues. This could include reforms in provincial taxation, improving tax administration, and expanding the tax base by bringing the informal economy under the tax net. Additionally, KP can leverage its natural resources, such as hydropower and minerals, through public-private partnerships and investments in sectors that have the potential to generate significant revenue. Developing a comprehensive strategy for revenue diversification will not only enhance fiscal autonomy but also provide the province with a more sustainable financial footing.

- **Addressing Intra-Provincial Disparities**

While the 7th NFC Award has increased KP's overall financial resources, there remain significant disparities in development within the province itself. Rural areas, in particular, continue to lag behind in terms of access to basic services and infrastructure. To address these intra-provincial disparities, the provincial government should adopt a more equitable approach to resource allocation, prioritizing investments in underdeveloped regions. Targeted development programs, tailored to the specific needs of different areas, can help bridge the gap between urban and rural development, fostering inclusive growth and reducing regional inequalities.

- **Need for a Dynamic and Responsive NFC Formula**

The experience of KP under the 7th NFC Award underscores the need for a more dynamic and responsive approach to fiscal federalism in Pakistan. As socio-economic conditions evolve, so too must the criteria and mechanisms for resource distribution. Future NFC Awards should incorporate mechanisms that allow for periodic reviews and adjustments based on emerging challenges and opportunities faced by the provinces. This could include factors such as environmental vulnerabilities, demographic shifts, and new economic opportunities, ensuring that the fiscal framework remains relevant and effective in addressing the provinces' needs.

- **Strengthening Coordination between Federal and Provincial Governments**

Effective fiscal federalism requires strong coordination and collaboration between the federal and provincial governments. For KP, this means working closely with the federal government to address fiscal challenges, secure additional resources where needed, and ensure that national policies are aligned with provincial priorities. Establishing joint forums for dialogue, policy development, and dispute resolution can facilitate a more cooperative approach to fiscal management, reducing friction and enhancing the overall effectiveness of resource distribution.

- **Building Institutional Capacity for Fiscal Management**

Fully capitalize on the financial benefits of the 7th NFC Award, KP must invest in building the institutional capacity of its fiscal management bodies. This includes training personnel, adopting modern financial management systems, and improving data collection and analysis to inform decision-making. By strengthening the capacity of institutions responsible for budgeting, revenue collection, and expenditure management, KP can ensure that its fiscal policies are not only well-designed but also effectively implemented.

- **Promoting Sustainable Development through Strategic Investments**

Finally, KP should use the increased fiscal space provided by the 7th NFC Award to make strategic investments that promote long-term sustainable development. This includes focusing on sectors that drive economic growth, such as education, health, and infrastructure, as well as investing in social safety nets that protect vulnerable populations. Additionally, adopting a green development approach that prioritizes environmental sustainability can position KP as a leader in sustainable growth, attracting investment and setting a model for other provinces.

By implementing these recommendations, Khyber Pakhtunkhwa can strengthen its fiscal autonomy, improve governance, and ensure that the benefits of the 7th NFC Award translate into tangible socio-economic improvements for its people. These measures will not only enhance KP's financial resilience but also contribute to the broader goal of balanced regional development in Pakistan.

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