

Trends and Patterns in Federal-Provincial Fiscal Flows in Pakistan: A Preliminary Analysis*

SARFRAZ KHAN QURESHI

INTRODUCTION

An important aspect of the fiscal relations between the federal and provincial governments is the command over resources, expenditure responsibilities and the direction, size and form of fiscal flows between different layers of government. In most federations, revenue sources generally assigned to lower levels of governments often fall short of adequately fulfilling the expenditure responsibilities of such governments. Given this important feature, the identification of the predominant central authority over the country's resources and the implications for public policy of the restructuring of centre-state fiscal relations to ensure balanced development of all provinces emerge as important issues.

This paper documents trends in centralization for both the expenditure and revenue sides of the budget, traces the evolution of revenue sharing and other federal transfers and delineates some policy guidelines in the area of fiscal federalism for Pakistan. Intra-provincial differences have not been highlighted as the analysis is carried out at the level of all provinces.

TRENDS IN CENTRALIZATION OF EXPENDITURES AND REVENUES

Table 1 brings out the position with respect to the centralization issue in Pakistan. The share of provinces in the total Annual Development outlays varies between 18.5 percent in 1980-81 and 42.6 percent in 1973-74. There is a declining trend till 1980-81 and a slight upward trend afterwards. Overall, there is a tendency of increasing centralization in the earlier period and a slight relaxation in this tendency after 1980-81. The situation with respect to the share of provinces in development expenditure and revenue expenditure on the current account throws a similar picture with respect to the relative significance of the central and provincial governments. The share of the provinces in total current expen-

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Sarfraz Khan Qureshi is Joint Director at the Pakistan Institute of Development Economics, Islamabad.

Table 1

Indicators of Centralization in Public Expenditure and Revenue

	1972- 73	1973- 74	1974- 75	1975- 76	1976- 77	1977- 78	1978- 79	1979- 80	1980- 81	1981- 82	1982- 83	1983- 84	1984- 85	1985- 86	1986- 87	1987- 88
Development Expenditure on Current Account as Percentage of Current Expenditure	19.3	22.5	19.4	18.6	16.9	13.5	15.8	20.2	19.08	21.90	23.06	25.53	22.88	30.46	26.98	30.13
Non-development Revenue Expenditure as Percentage of Current Expenditure	29.6	22.7	23.8	27.3	29.2	28.3	24.7	25.3	23.96	23.12	22.05	23.54	22.90	23.55	24.32	23.57
Provincial Annual Development Expenditure as Percentage of National Annual Development Expenditure	41.7	42.6	29.9	27.7	25.8	21.6	20.9	19.9	18.5	21.5	24.5	24.5	22.5	24.5	26.6	30.2
Provincial Tax Revenue as Percentage of Total Tax Revenue	9.47	9.61	9.45	9.08	7.78	6.82	7.59	6.64	6.34	6.44	6.81	5.59	6.19	5.58	5.54	4.98
Provincial Non-tax Revenue as Percentage of Total Non-tax Revenue	30.57	25.55	23.91	22.48	20.89	20.07	19.71	24.35	19.76	22.15	22.78	13.97	17.43	12.86	13.45	10.74
Total Provincial Revenue as Percentage of Total Revenue	14.54	13.50	12.85	12.33	11.01	9.99	10.48	9.81	8.96	9.51	9.94	7.93	9.63	7.87	8.37	6.92
Provincial Current Revenue after Federal Transfer as Percentage of Consolidated Current Revenue	22.54	22.11	25.53	28.12	27.13	28.23	28.68	28.05	34.78	30.55	28.83	29.76	33.61	35.96	39.25	37.30
Percent Expenditure Financed by Own Revenue	45.55	54.24	42.05	37.74	34.05	31.50	35.80	33.28	31.47	28.65	31.62	23.95	27.34	19.72	18.96	16.72
Percent Expenditure Financed by Own Revenue Adjusted	69.54	79.03	73.68	79.76	75.17	70.66	78.29	84.47	93.11	79.69	79.61	69.82	65.62	51.88	48.37	47.48

ditures fluctuates from year to year but is always much lower than that of the federal government.

The federal government is not only the predominant layer of the government in aggregate spending, it also has exhibited marked centralization of expenditures under some selected heads. Power, fuels, mass media and relief operations are areas in which provinces have a nil or insignificant role. Rural development, physical planning and housing, education and health are areas in which provincial involvement is dominant, being more than 50 percent. In some of the sectors, the relative roles of the two levels of governments change drastically over time. This changing role reflects the flexibility of the centre-state fiscal relations as it is brought about by mutual consent between the federation and the federating units.

Provincial responsibilities of current expenditures, in general, follow the pattern of state-centre relations established for development expenditure. The share of the provinces in current expenditures, broadly speaking is close to their share in the Annual Development Programme (ADP). Like development expenditure, the share of provinces across services varies considerably. Some services are under the exclusive control of the federal government while others are practically the sole responsibility of the provincial governments. The shares in jointly arranged services also vary between services and, for different services, over time. The provincial responsibility in defense and broadcasting is nil while in social and economic services it is dominant.

The autonomy of provinces and its changing pattern may also be looked into on the revenue side of the budget. The provinces' role in resource mobilization contrast sharply with their expenditure obligations. The provinces raise only a minor fraction of resources and the extent of resource mobilization is much less than their share in consolidated federal and provincial expenditures. The provinces' share in total tax collections, non-tax collections and revenue collections falls over the period of study. In the case of tax collections the provincial share falls from 9.61 percent in 1972-73 to 4.98 percent in 1987-88. The position does not improve much when total revenue collections are considered. The share of provincial collections falls from 14.54 percent in 1972-73 to 6.92 percent in 1987-88. The provincial resource mobilization efforts are not only weak but seem to have deteriorated over time. The financial dependence of provinces on the federal government is indicated by the quantitative importance of federal transfers in the form of federal tax assignments and current grants in the total revenue receipts of the provinces. The federal transfers considerably raise the provinces'

share in national current revenue. The federal transfers increased sharply over time and are responsible for imparting an upward trend to the shares of provinces in total national revenues.

The weak performance of the provinces in resource mobilization combined with rapidly increasing federal transfers indicates an increasing divergence between the provinces' own revenues and their expenditure. The increased dependence of the provinces on the federal government is probably the most burning issue of the time in Centre-Provincial fiscal relations.

The proportion of provincial expenditures financed out of their own sources is less than 50 percent in all years excepting 1973-74 when this proportion is 54 percent. This proportion is not only low but exhibits a sharp declining trend. It falls from 54 percent in 1973-74 to 17 percent in 1987-88. The last row in Table 1 is drawn on the assumption that the provinces exercise full influence on the federal tax assignments and current grants and determine the level of federal transfers to the provinces. The adjusted provincial own revenues finance larger proportion of provincial expenditure. There are large yearly fluctuations. In the earlier period there is a rising trend and the dependence of the provinces on the central government seems to be falling. After 1980-81, the provinces seem to be financing their expenditure largely through outside funds on which they do not have control.

It must be obvious by now that there is no single measure that can give an unambiguous idea about the financial soundness of sub-national governments and the degree of autonomy enjoyed by them. The levels of federal tax assignments and federal current grants are determined jointly by the representatives of the federal and provincial governments. Keeping this in view, it can be argued that the percentage of provincial expenditure financed by adjusted own revenue overestimates the contribution of the provincial finances towards meeting its expenditure obligations. Since provincial revenues have not risen in tandem with the revenues raised by the federal government, evidence of considerable and increasing centralization on the revenue side of the budget is clear. In matters of expenditure, the dominance of the federal government is quite visible. However, the provincial governments seem to be not only maintaining their own share but in certain sectors seem to have increased their share in consolidated expenditures. However, the federal government has a considerable say in the determination of expenditure priorities through its role in the planning process and the approval of large development projects even when such projects are provincial projects.

TRENDS AND PATTERNS OF REVENUE SHARING AND OTHER FEDERAL TRANSFERS

There are three main types of federal transfers in the case of Pakistan. Revenue sharing transfers a part or full amount of proceeds from some specified taxes to the provinces. The federal government also transfers resources in support of the provincial current budgets outside the framework of federal tax assignments. The provinces' development budgets are largely financed by transfers from the federal government. This section is devoted to a description and analysis of three types of federal transfers for the period 1972-73 to 1987-88.

A. Federal Transfers by Type of Transfer

Total federal assistance for the provinces has shown an explosive growth since 1972-73. The importance of different forms of assistance has also changed over the period of the study. Table 2 presents data on federal transfers broken down by type of assistance.

Total federal assistance increases from Rs 2.9 billion in 1972-73 to Rs 50 billion in 1987-88 showing a rate of growth of 21 percent per year. Transfers for the development budget, current budget and federal tax assignments grow at a rate of 27.46 percent, 33.06 percent and 22.08 percent per year respectively. For the entire period, the shares of development assistance, non-development assistance and federal tax assignments in total federal assistance are respectively 34 percent, 26 percent and 40 percent. Different rates of growth in different forms of assistance have increased the importance of transfers for the current budget on the cost of transfer for the development budget which declines from 65 percent of the total assistance in 1972-73 to 32 percent in 1987-88.

Tax revenues transferred by the central government constitute a significant proportion of provincial revenue receipts as well as provincial total receipts as is evident from Table 3. Federal tax assignments, current and development grants taken together and labelled as total federal assistance were 82 percent of the total provincial receipts and 86 percent of total provincial expenditures. The trends in the key indicators also show that the provinces are becoming increasingly dependent on the federal government.

B. Transfers for the Current Budgets

It was noted in the previous sub-section that transfers for current budget or non-development assistance has increased sharply over the period of study. Such assistance is broadly of three types. It finances the provincial deficits on

current account. The federal government pays fixed subvention to some provinces. It also provides cash grants to the provinces to finance activities like flood and drought relief.

The practice of assisting poorer provinces through fixed annual subventions has been applied in the case of Balochistan and North West Frontier Province (NWFP). The amount of annual subventions was increased from Rs 21.70 million in 1972-73 to Rs 150 million in 1975-76. The determination of the level of fixed subvention is not based on any scientific calculation of the poverty levels of provinces. It is based on a notion of helping those provinces who cannot finance even modest schemes of social improvements from their own meagre resources.

Non-development assistance on account of financing of the current account budgetary deficits of the provinces has been the main source of increase for the transfers for the current budget. Such assistance was historically provided only to the provinces of Balochistan and NWFP. However, since 1983-84, Sindh and Punjab have also been provided with this type of federal transfer. The grants for other purposes relate mainly to the reimbursement of expenditure incurred by the provinces on behalf of the federal governments. The practice of financing current account deficits by the federal government has permitted provincial governments to relax somewhat in the mobilization of their revenue potential.

C. Transfers for Development Budgets

The size of the provincial annual development plans is determined each year by the National Economic Council where provinces are represented by their Chief Ministers. The distribution of development funds among the provinces is made on the basis of population-cum-weightage formula, i.e. 90 percent of funds are allocated according to the ratio of population and the remaining 10 percent are equally divided between the two poorer provinces of NWFP and Balochistan. The Special Development Programmes for different provinces provide funds in addition to the funds allocated according to the prescribed formula. The distribution of development funds among provinces for 1972-73 and 1987-88 in Table 4 shows that the share of poorer provinces has gone up. The development funds take the form of grants as well as loans. In general, finance is provided to provinces on a loan basis. Such loans are general purpose loans which may be used by the provinces to finance outlays included in the Annual Development Programme. Grants are provided by the federal government for specific projects. Since the priorities fixed by the federal government have often been changed, the proportion of development funds financed through grants shows an erratic behaviour over time.

Table 2
Federal Transfers to Provinces by Type and Time Periods

(Figures in Million Rupees)

Type of Federal Transfers	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1972-73 to 1987-88	% Rate of Growth for 1972-88
1. Development Assistance																		
a. Grants	279.60	332.70	536.00	560.00	573.20	1180.50	1344.10	1571.80	2696.30	1580.50	1241.60	614.80	880.80	3840.90	1894.80	10646.80	29774.40	27.46
b. Loans	1571.30	1541.30	2352.70	2943.90	3480.80	2332.70	2542.00	2537.40	941.70	3446.60	4454.00	5627.90	6948.10	8068.90	9694.10	5420.10	63903.50	8.61
Total (a+b)	1850.90	1874.00	2888.70	3503.90	4054.00	3513.20	3886.10	4109.20	3638.00	5027.10	5695.60	6242.70	7828.90	11909.80	11588.90	16066.90	93677.90	15.50
Grants as % of Total Development Assistance	15.11	17.75	18.56	15.98	14.14	33.60	34.69	38.25	74.11	31.44	21.80	9.85	11.25	32.25	16.35	66.27	31.78	-
Development Assistance as % of Total Federal Assistance	64.60	57.62	56.46	51.32	49.64	40.37	39.09	36.16	28.10	32.60	33.05	28.15	29.60	33.37	27.69	32.11	33.69	-
2. Non-development Assistance																		
a. Revenue Deficit	94.90	180.90	343.10	79.80	356.80	1160.30	1543.10	873.60	573.50	960.30	1961.30	4378.60	7246.50	11415.00	16286.30	18218.50	65672.50	41.98
b. Subvention	21.70	21.70	21.70	150.00	150.00	150.00	150.00	150.00	150.00	150.00	150.00	150.00	150.00	150.00	150.00	150.00	2015.10	13.76
c. Others	144.70	323.20	267.60	320.20	529.80	366.60	212.30	180.10	73.00	191.90	76.00	119.90	309.50	376.10	514.70	596.70	4602.30	9.91
Total (a+b+c)	261.30	525.80	632.40	550.00	1036.60	1676.90	1905.40	1203.70	796.50	1302.20	2187.30	4648.50	7706.00	11941.10	16951.00	18965.20	72289.90	33.06
Revenue Deficit as % of Total Non-development Assistance	36.32	34.40	54.25	14.51	34.42	69.19	80.99	72.58	72.00	73.74	89.67	94.19	94.04	95.59	96.08	96.06	90.85	-
Non-development Assistance as % of Total Federal Assistance	9.12	16.17	12.36	8.06	12.69	19.27	19.17	10.59	6.15	8.45	12.69	20.96	20.14	33.46	40.50	37.90	26.00	-
3. Federal Tax Assignments	752.80	852.30	1595.60	2773.10	3075.80	3512.50	4149.10	6050.30	8511.60	9090.30	9350.00	11285.50	10910.20	11834.10	13311.50	15001.70	112056.40	22.08
Federal Tax Assistance as % of Total Federal Assistance	26.28	26.21	31.18	40.62	37.66	40.36	41.74	53.24	65.75	58.95	54.26	50.89	41.26	33.16	31.81	29.98	40.30	-
4. Total Federal Assistance (1+2+3)	2865.00	3252.10	5116.70	6827.90	8166.40	8702.60	9940.60	11363.20	12946.10	15419.60	17232.90	22176.70	26445.10	35685.00	41851.40	50033.80	278024.20	21.01

Table 3

*Role of Different Forms of Financial Assistance and Tax Assignment
to Provinces by Federal Government (Percentage)*

	1972- 73	1973- 74	1974- 75	1975- 76	1976- 77	1977- 78	1978- 79	1979- 80	1980- 81	1981- 82	1982- 83	1983- 84	1984- 85	1985- 86	1986- 87	1987- 88
1. Federal Development Assistance as Percentage of Total Provincial Revenue Receipts	83.48	61.34	68.56	61.69	64.53	44.00	40.62	36.53	26.25	30.66	31.85	28.22	28.79	35.95	28.79	36.54
2. Federal Non-development Assistance as Percentage of Total Provincial Revenue Receipts	11.79	17.21	15.01	9.68	16.50	21.00	19.91	10.70	5.75	7.94	12.23	21.01	28.34	36.04	42.11	43.13
3. Federal Tax Assignments as Percentage of Total Provincial Revenue Receipts	33.95	27.90	37.87	48.82	48.96	43.99	43.36	53.79	61.42	55.45	52.29	51.02	40.13	35.72	33.07	34.12
4. Federal Development Assistance as Percentage of Total Provincial Receipts	47.87	37.09	43.35	42.42	40.77	36.98	32.55	23.34	17.34	16.76	24.15	22.06	23.14	28.79	22.98	26.17
5. Federal Non-development Assistance as Percentage of Total Provincial Receipts	6.76	10.41	9.49	6.66	10.42	17.65	15.96	6.84	3.80	4.34	9.28	16.43	22.78	28.86	33.62	30.89
6. Federal Tax Assignments as Percentage of Total Provincial Receipts	57.34	60.46	63.24	68.76	63.18	84.04	80.15	63.88	66.04	54.65	75.83	78.18	80.37	80.08	79.83	71.61
7. Development Assistance as Percentage of Provincial Annual Development Programme	99.64	67.66	89.98	93.45	96.90	94.76	90.61	96.01	73.90	86.70	81.70	88.64	104.78	124.03	92.71	110.81
8. Total Federal Assistance as Percentage of Total Provincial Receipts	74.10	64.37	76.79	82.65	82.12	91.61	83.27	64.53	61.69	51.40	73.08	78.38	78.17	86.25	83.00	81.49
9. Total Federal Assistance as Percentage of Total Provincial Expenditures	68.04	60.74	69.99	73.32	77.97	75.15	77.84	77.19	75.16	70.95	71.30	76.21	79.20	87.26	79.82	86.30
10. Net-development Assistance as Percentage of Provincial Annual Development Programme	87.02	63.05	82.16	77.96	74.13	58.66	58.78	48.02	23.89	13.15	30.36	25.25	29.22	47.62	18.63	43.95

Table 4
*Development and Non-development Assistance to Provincial Governments
 1972-73 and 1987-88*

Type of Transfer	(Million Rupees)									
	1972-73					1987-88				
	All Provinces	Punjab	Sindh	NWFP	Balochistan	All Provinces	Punjab	Sindh	NWFP	Balochistan
1. Transfers for Development Budget	1850.90	1094.10	424.20	204.40	128.20	16066.90	8115.40	3363.60	2527.50	2060.40
Province as % of All Provinces Development Budget	100.00	59.11	22.92	11.04	6.93	100.00	50.51	20.93	15.73	12.82
a. Grants	279.60	151.60	83.00	28.00	17.00	10646.80	5233.40	2240.60	1557.60	1615.20
Grants as % of Development Budget	15.11	13.86	19.57	13.70	13.26	66.27	64.49	66.61	61.63	78.39
b. Loans	1571.30	942.50	341.20	176.40	111.20	5420.10	2882.00	1123.00	969.90	445.20
Loans as % of Development Budget	84.89	86.14	80.43	86.30	86.74	33.73	35.51	33.39	38.37	21.61
2. Transfers for Current Budget	261.30	18.40	107.40	18.90	116.60	18965.20	8741.50	3925.10	4685.80	1612.80
Province as % of All Provinces Current Budget	100.00	7.04	41.10	7.23	44.62	100.00	46.09	20.70	24.71	8.50
a. Revenue Deficit	94.90	0.00	0.00	0.00	94.90	18218.50	8277.00	3819.60	4581.00	1540.90
Revenue Deficit as % of Current Budget	36.32	0.00	0.00	0.00	81.39	96.06	94.69	97.31	97.76	95.54
b. Subvention	21.70	0.00	0.00	12.50	9.20	150.00	0.00	0.00	100.00	50.00
Subvention as % of Current Budget	8.30	0.00	0.00	66.14	7.89	0.79	0.00	0.00	2.13	3.10
c. Others	144.70	18.40	107.40	6.40	12.50	596.70	464.50	105.50	4.80	21.90
Others as % of Current Budget	55.38	100.00	100.00	33.86	10.72	3.15	5.31	2.69	0.10	1.36
Total Federal Assistance (1+2)	2112.20	1112.50	531.60	223.30	244.80	35032.10	16856.90	7288.70	7213.30	3673.20

D. Revenue Sharing between the Provincial and Federal Governments

The transfer of tax revenue from the federal government to the provincial governments has been governed by the sharing arrangements evolved in the light of recommendations of different National Finance Commissions. The formula for the distribution of the revenue from different tax sources has been subjected to a continuous review. Originally laid down in 1937 under the *Niemeyer Award*, it was revised in 1951 under the *Raisman Award*. It was subsequently revised by the National Finance Commission in 1962, 1964, 1970 and 1974. The 1973 Constitution of Pakistan stipulates a review at least every five years. However, no such review has been undertaken since 1974.¹

Table 5 presents in summary fashion the main features of the tax sharing arrangements of different National Finance Commissions. Presently, 80 percent of the net proceeds from income tax, corporation tax and federal sales tax is paid to the provinces. The share of each province is determined on the basis of population.² The surcharge on natural gas is collected by the federal government but the net revenue is paid to different provinces on the collection basis. The Constitution provides that the net profits realized by the federal government from bulk generation of hydro power be transferred to the provinces in which hydel stations are located has not been implemented.

One feature that needs to be noted is the enlargement of the scope of revenue sharing with successive National Finance Commissions. The divisible part of the resources has been continuously enlarged by inclusion of new taxes and increasing the share of proceeds to be transferred to the provinces for taxes that are already a part of the divisible pool. In 1951, sales tax and central excise on tea, tobacco and betelnut were added to the pool. In 1962 two new taxes were added to the pool and the share of three old taxes was increased. In 1964, no new tax was added to the pool but provincial shares were increased for three taxes in the divisible pool. In 1970, provincial shares of four taxes were further increased. In 1974, three minor taxes reverted to the federal government. However, the provincial shares in income, sales and export taxes were increased substantially. Instead of 36.8 percent (46 percent of 80 percent of net receipts after separation of East Pakistan in 1971), the provinces were given 80 percent of the

¹An award has been announced in 1990 by the present government. The present paper was completed before the award was announced.

²Populations of different provinces are ascertained through different Population Censuses. The proportions of the population of different provinces remain fixed between the period of two Censuses. The change to the new basis reflecting changes in provincial populations is not automatic. It has to wait for a decision on the matter by the National Economic Council.

Table 5

Main Features of Tax Sharing Arrangements

	Niemeyer Award 1937	Raisman Award 1951	National Finance Commission 1962	National Finance Commission 1964	National Finance Commission 1970	National Finance Commission 1974
Income Tax ^a	50 }	50 }	50 }	65 }	80 }	80
Corporation Tax	— }	}	}	}	}	
Sales Tax	—	50	60	65	80	80
Central Excise on Tea, Tobacco and Betelnut	—	50	60	65	80	—
Export Duty on Jute and Cotton	62.5 ^b	62.5 ^b	100	65	80	80 ^c
Estate and Succession Duties in Respect of Agricultural Land	—	—	100	100	100	—
Taxes on the Capital Value of Immovable Property	—	—	100	100	100	—

Source: Government of Pakistan (1975).

^a Excluding income tax on emoluments of federal employees.

^b Confined to jute.

^c Confined to cotton.

net receipts from income and corporation tax, sales tax and export duty on cotton. Despite the enlargement of the divisible pool and the increase in the share of taxes going to provinces, revenue sharing has not been on a scale large enough so as to avert the current account deficits of the provincial governments.

The brief review of different forms of federal transfer indicates that the bulk of resources for both current and capital budgets are being provided to provinces on the basis of population. Only a small fraction of the resources is being transferred to the provinces on the basis of the collection of revenues. The existing distribution formulas do not take account of the provincial needs as measured by variations in per capita tax basis. The lack of information on provincial gross domestic product in Pakistan is a serious constraint in assessing the relative need of different provinces for equalization grants.

CONCLUSIONS AND IDENTIFICATION OF POLICY INITIATIVES

The overriding finding that emerges is that of the federal government's dominance in the spheres of both public expenditure as well as revenues and of an ever-widening gap between provincial revenues and expenditures. The closing of this gap without any major adverse side effects should be the primary concern of the policy-makers in the field of restructuring of fiscal federalism in Pakistan. Policy issues in this area in a summary fashion are discussed next.

First, the stipulation about the revision of revenue sharing arrangements after every five years has given rise to unnecessary frictions and tensions between the centre and the federating units. This delay has also necessitated *ad hoc* grants for covering the budget deficits of the provinces.

Second, there is a need to review the present system of revenue sharing. In the interest of promoting financial autonomy, there is a need for expanding the scope of the divisible part of resources by including more taxes in its scope. Also some of the major taxes may be transferred to the provinces.

Third, the present practice of providing federal grants for financing the budget deficits of provinces implies lack of incentives for greater resource mobilization efforts by the provinces. The broadening of revenue sharing arrangements suggested above should reduce the need for federal grants for financing the budget deficits of the provinces. There is a need also to enlarge the scope of matching grants in inter-governmental fiscal relations.

Provinces utilizing more intensively their own revenue potential need to be rewarded by increased federal grants and not punished as is the present case.

Fourth, there is a need to increase the provinces' own tax receipts and

non-tax receipts by improvements in tax administration, tax reforms and appropriate user charge policies.

Fifth, the regional distribution of loans and grants for financing provincial ADPs is largely based on population. This formula results in a lack of incentives on the part of the provinces to attract external resources since a province that has been successful in attracting external funds will find its ADP allocations reduced. There is a need to review the distribution formula by which development funds are disbursed and which need not punish the provinces that succeed in mobilizing foreign resources.

Last but not the least, the limitation of the present study be noted. We have concentrated on the analysis of fiscal relations between the federal and provincial governments. There is a third tier of government in Pakistan known as local level government. The Constitution does not define the resource raising competence of the local government institutions. The provincial governments pass on some of their powers to local government. There is a need to study the provincial-local government fiscal relationship.

REFERENCE

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