



IT'S TIME TO RENEW THE NFC AWARD – FOR A FAIRER, STRONGER PAKISTAN

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Pakistan's federal system rests on a simple truth: every tier of government — federal, provincial, and local — must have the resources to fulfil its constitutional responsibilities. That principle comes alive through the National Finance Commission (NFC) Award, the constitutional mechanism for dividing federal tax revenues between the federation and the provinces. It is the lifeline of fiscal federalism — but today, it is frozen in time.

The 7th NFC Award, agreed in 2009 and implemented in 2010, was a milestone in our fiscal history. It emerged from hard-fought consensus, raised the provinces' share of the divisible pool

from 47.5% to 57.5%, and for the first time went beyond population as the sole criterion. It factored in poverty, revenue effort, and inverse population density, with special adjustments for Khyber Pakhtunkhwa's security costs and Balochistan's guaranteed share. It was a triumph for inter-provincial trust, and a step toward recognising that the poorest provinces needed fiscal space to catch up.

But it was never meant to be permanent. The Constitution's Article 160(1) requires the NFC to be reconstituted at least every five years to keep resource-sharing fair, relevant, and responsive. Fifteen years later, Pakistan is still running a

21st-century federation on a 2009 formula. In that time, our realities have shifted dramatically. Urbanisation has surged — from 36% of the population in 2009 to over 41% in 2024 — changing the shape of infrastructure and service delivery needs. Climate shocks have intensified, with the 2022 floods alone causing over US\$30 billion in losses, highlighting the need for stronger federal capacity to manage resilience and disaster recovery.

Meanwhile, the federal government's fiscal space has been squeezed to the breaking point. Under the current award, 57.5% of federal tax revenues go to the provinces before the centre spends a single rupee. Federal obligations have not shrunk in parallel; they have grown. Each year, over Rs. 150 billion is spent on Azad Jammu and Kashmir, Gilgit-Baltistan, the newly merged districts of KP, and Islamabad — none of which receive a share of the divisible pool. Another Rs. 716 billion goes to the Benazir Income Support Programme, even though social protection became a provincial responsibility under the 18th Amendment. Most critically, debt servicing now consumes over 80% of net federal revenues.

The consequences are stark. The Public Sector Development Programme — the engine for national projects like dams, highways, higher education, and power transmission — has shrunk from 2.6% of GDP in 2018 to just 0.8% in 2025. Many projects that bind the country together have stalled for lack of funds, while provincial development spending has risen from 59% of the national total in 2000 to 76% in 2025. In other federations, such as Canada, the federal government maintains strong fiscal space to fund equalisation payments, health transfers, and infrastructure, ensuring national standards. Pakistan's federation, by contrast, is increasingly starved of the means to invest in nation-building.

This fiscal squeeze is compounded by a governance gap. The 18th Amendment was a bold reaffirmation of federalism, devolving 17 major functions to the provinces. But most provinces never devolved these further to districts and local governments, as required by Article 140A. The result is provinces that have replicated the centre's centralisation — holding power and resources at the top while devolved sectors like education, health, agriculture, and population planning remain underperforming. Pakistan ranks 161st in education and 154th in health globally, despite the fact that provinces now control the lion's share of spending in these sectors.

Other federations avoided this trap. India mandates Finance Commissions at the state level to ensure transparent resource flows to local bodies. South Africa embeds constitutionally protected transfers to municipalities, linked to performance reporting. Pakistan must either empower functional, elected, and well-funded district governments, or open a national debate on creating more, smaller provinces for more manageable governance. Our four mega-provinces are an outlier globally — Afghanistan, with 44 million people, has 34 provinces; Türkiye, with 86 million, has 81; India has created 11 new states since 1947.

A deeper problem lies in the design of the 7th NFC Award itself. The 18th Amendment inserted a clause that the provincial share cannot be reduced below the 2009 level of 57.5%. This “non-flexibility” has frozen the formula and discouraged reform. With guaranteed revenues, provinces have little incentive to revisit the award or expand their own tax effort. The result is repeated deadlock in NFC negotiations and a formula increasingly out of sync with Pakistan's realities.

A renewed NFC Award must shift the focus from simply dividing revenues to sharing responsibility for results. Performance-based allocations could reward provinces that improve literacy, expand health coverage, strengthen population planning, mobilise provincial taxes, and invest in climate resilience. Federal transfers could be linked to active Provincial Finance Commissions that ensure funds reach local governments. Transparency benchmarks could make certain grants conditional on provinces publishing sectoral performance data.

The current population weight of 82% in the formula also distorts incentives. It penalises provinces that successfully control population growth, under-rewards governance quality, and ignores climate vulnerability and urbanisation pressures. Global practice points to a more balanced approach. India's 15th Finance Commission reduced the population weight to 15% for performance-based criteria, while Germany combines population with fiscal capacity and “need” factors like unemployment. Pakistan's NFC could reduce the population weight to around 60%, with the rest assigned to performance, environmental stewardship, and climate adaptation, and also earmark a share for AJK, GB, and ICT in the divisible pool.

Strengthening the federation's fiscal capacity is not about weakening provinces. It is about enabling the country to execute projects that no single province can undertake alone: strategic transport corridors like CPEC, cross-provincial energy grids, mega water storage projects like Diamer-Bhasha and Mohmand dams, high-speed rail, and cutting-edge research in higher education, nuclear, and space technology. Without resources, these remain paper dreams — and the whole nation loses.

Renewing the NFC Award will be politically difficult but is economically unavoidable. The next award must rest on three principles: equity, so that every citizen in every province has equal opportunity; efficiency, so that good governance and fiscal effort are rewarded; and evolution, so that our fiscal federalism adapts to a changing world. The Constitution gives us the framework. The data is ready. What remains is the political will.

The NFC Award is not just a financial formula; it is the bloodstream of our federation. It determines whether resources reach those who need them, whether governments can deliver, and whether Pakistan can meet its development goals. The 7th NFC Award was a landmark of its time. The 8th can be a game-changer — but only if we modernise it to meet today's and tomorrow's challenges. For a fairer, stronger, and future-ready Pakistan, the time to act is now.

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