



# **IMPACTS AND IMPLICATIONS OF THE 7<sup>th</sup> NFC AWARD**

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# ROAD MAP

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- **Introduction**
- **NFC Award**
- **Salient Features of the 7<sup>th</sup> NFC Award**
- **Weightings Used in NFC & PFC Awards**
- **Steps For Provincial Equalities**
- **Major Issues**
- **Influence at the Provincial level KPK**
- **Punjab Budget 2010-11**
- **Implications of 18th Amendment & NFC**
- **Conclusion and Recommendations**



# Introduction ...

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- **Distribution of resources - profound impacts on income, devel., backwardness, poverty and its alleviation**
- **Most of the revenue are collected by centre – distributed → Vertically & Horizontally**
- **Systematic (formula based)**
  - i, NFC ii, PFC iii, F to L & iv, L to L**
- **Random transaction:**
  - i. development/ special grants,**
  - ii. executives discretionary and**
  - iii. parliamentarian funds, etc.**



## **... Introduction**

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- **NFC award a step forward for decen. w/ c provides:**
  - **↑ equitable distribution**
  - **Better accountability**
  - **Cost effectiveness**
  - **Greater opportunities for empowering and serving the poorest people - better supports the poverty reduction**



# **NFC Award ...**

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- **NFC Award constitutional obligation**
- **19 years controversial**
- **August 2009 to December 2009 (4 months) amicably solved – credit go to democracy**
- **Sindh, Balochistan and KP multiple criteria**
- **Sindh – revenue (sale tax, services collection)**
- **KPK – Poverty, Balochistan – inverse pop. density**



# **Salient Features of 7<sup>th</sup> NFC Award ..**

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- **Federation sacrificed more than 10% of its share to provinces**
- **From federation about Rs 225 billion more grants**
- **In the new multifactor formula beside pop. poverty, underdevelopment, and inverse pop. density criteria were also considered**



## **... Salient Features of 7<sup>th</sup> NFC Award**

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- **After deducting 1% for war on terror, the balance amount of the proceeds of divisible pool taxes, 56% has been assigned to provinces during FY 2010-11, and 57.5% from FY 2011-12 onwards**
- **The collection charges have been reduced to 1% from 5% by Fed.**



# Share of NFC

Province	% Share in Divisible Pool under 7 <sup>th</sup> NFC	% Reduction in share	Additional Budget %
Punjab	51.74	1.27	48
Sindh	24.55	0.39	61
KPK	14.62	0.26	79
Balochistan	9.09	(+ 1.82%)	175

**Provincial share in the divisible pool to 56% for 2010/11 and 57.5% from the existing 47.5%**



## Weightings Used in Horizontal Distribution in the Finance Awards

Weightings	Pak.	Punjab	Sindh	Baloch	KPK
Population	82	75	50	50	50
Back./ poverty	10.3	10	17.5		25
Tax effort	5	5	7.5		
Fiscal austerity		5			
Area				50	
Inverse pop. density	2.7				
Devel. Incentive		5			25
Transitional asstt.			25		

# Steps For Provincial Equalities

- **KPK will get Rs 110 billion from the hydril profit within 5 years**
- **Balochistan will get Rs 120 billion as Gas Dev. Surcharge (GDS) of 1954 to 1991 of 12 years installment**
- **On the demand of Sindh province all provinces will get the general sales tax**
- **KPK will get 1% additional share from the Divisible Pool in account of the fight against the terrorists.**



# Major Issues ...

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- **Poor revenue collection & mobilization**
- **Weak financial management & lack of accountability of the public sector**
- **Efficiency related issues – lack of capacity (knowledge, skill and experience under new system) - Higher allocations mean more responsibility for the provinces but hardly anything is being done for capacity building of the provincial departments**
- **Halting and reversing the environmental degradation issues**



## **... Major Issues ...**

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- **NFC sign – Simultaneously VAT with IMF and 18th Constitutional Amendment**
- **Sindh – tax collection (Law, institute and recruitment) Fed. 3 months delay (80 tax of services is communication – Proxy creation for collection**
- **VAT same NFC formula?**



## **... Major Issues ...**

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- **Transfer of subject department implementation?**
- **Council of Common Interest (CCI) - Rule, secretariat, member**
- **Concur list (progress ?)**
- **Core ministries 40 thousand people transfer – 150 lakhs people from Bodies**
- **Biannual report (implementation?)**



## **... Major Issues ...**

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- **Subsidies from “Divisible Pool” to “Wide elephants” (Burden to national exchequer to tune Rs 235 bill. while Rs 165 bill. Exp. on civil govt.)**
- **Decentralization (Province to districts)?**
- **Environmental issue?**
- **Efficiency, governance and capacity issues?**

# Influence at the Provincial Level KPK

- PFC → 50, 25 & 25 % on population, backwardness based on multiple indicator cluster survey (income, drinking water, education & literacy, child survival & nutrition, immunization & EPI (Children up to 5 year of age) with equal weight), and lag in infrastructure (LII)
- LII Peshawar → 2.10% ↑est, Tank 0.5% , Abbottabad 0.94% (24 Districts)
- Backwardness + LII → Peshawar = ↑est (2.78% ) and Chitral the lowest (1.27% ) while Abbottabad 1.5%





# **Punjab Budget 2010-11 ...**

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- **Budget overall Rs 580.2 bn. deficit Rs 25.3 bn.**
- **Current exp. 386.787 bn. Rs. 68 bn. ↑ them the revised estimates of current year.**
- **ADP Rs 193.5 bn. against the revised estimates of 134.734 bn. out going FY – An ambitious target of collecting Rs 91.5 bn. against actual collection of Rs 37 bn. & a target of Rs 50 bn.**
- **Subsidies Rs 21 bn. (pro poor) – Edu. & Health has been ↑ Rs 7.3 to Rs 28.8 bn. & Rs 6 bn. (hospital medicine)**



## **... Punjab Budget 2010-11**

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- **Cost to ↑ in salaries and pension (hefty amount) - Rs. 54 bn.**
- **ADP ↑ Rs 194 bn. with a deficit of Rs 25.3 bn.**
- **Low revenue collection would squeeze the fiscal space and the prov. govt. would then have to once again slash ADP and current exp.**



# **Implications of 18<sup>th</sup> Amendment and NFC ...**

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- **Abolition of the concurrent list**
  - **Transition period → Fed. Function**
  - **↑ fiscal deficit for Fed. (transfer revenues + bear exp. on provincial subject) - Fed losses Rs 684 billion**
  - **Fed. Projects related to prov. required a judicious consultation process – ownership, transfer and subsequent capacity enhancement**



## **... Implications of 18<sup>th</sup> Amendment and NFC ...**

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- **Provincial govt. – an ↑ amount of revenue at their disposal with no functional transfer – incline Prov. Govts. to ↑ exp. on existing functions leaving less room for the possible future transfer of functions**



## **... Implications of 18<sup>th</sup> Amendment and NFC**

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- **NFC award opportunities for the provincial govt. to increase efforts for revenue collection?**
- **Overall Govt. fiscal deficit strategy has become difficult to implement and target fixed with IMF are under risk of being under achieved**



# **Conclusions & Recommendations**

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- **NFC award is a major accomplishment and a product of the democratic process**
- **Multiple criteria is a commendable step forward**
- **A move towards provincial fiscal autonomy**
- **The Fed. Govt. has taken a substantial cut in its revenue and its resources will not be sufficient**
- **FBR to devise policies - revenue target.**



# Conclusions & Recommendations

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- **The success of the 7<sup>th</sup> NFC Award in the midst of the IMF program depend on the fiscal discipline of the fed. Govt., but more so the provincial govt.**
- **Pakistan will land in a more difficult fiscal situation, with the country's debt burden aggravating the situation even further.**



# Conclusions & Recommendations

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- **An early consultation process with provinces on transfer functions i.e. timeliness of transfer, projects, admn. capacity, exp. & delivery capacity should be undertaken**
- **Reorganization of Fed ministries to focus on policy formulation & implementation and prov. On service delivery capacity**

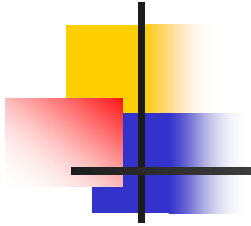




# Conclusions & Recommendations

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- **Fed. Provincial's projects future – discussed**
- **Policy review of national goals and obj. be carried out in consultation with provinces – future of PSDP and ways to improve service delivery**
- **Cater envir. & poverty in the backwardness principle**



**THANK YOU**

**for your Patience**