**Why the NFC matters**

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The ongoing economic downturn in Pakistan necessitates a search for fiscal solutions. While the central government must explore avenues to achieve fiscal stability, it should refrain from retracting the National Finance Commission (NFC) Award, ensuring provinces retain their rightful share in resource allocation.

The 18th Amendment stands as landmark legislation that meticulously addresses not only the economic disparities in the country but also the longstanding political grievances of smaller provinces regarding the previous NFC awards. These awards are pivotal in ensuring fair and equitable resource distribution among all provinces, transcending mere population-based allocations.

The NFC awards aim to provide fair treatment to all provinces, considering not only population but also indices such as poverty levels, revenue generation capacity, and the unique challenges faced by each region. Any attempt to amend the 18th Amendment risks reopening wounds of historical injustices and undermining the delicate balance achieved through years of negotiation and consensus-building.

The amendment effectively decentralized several federal ministries and functions to the provinces, empowering them in areas such as education, health, women’s development, tourism, and the environment. Meanwhile, the NFC facilitated fiscal resource creation from the divisible pool, bolstering provincial tax bases and acknowledging provincial rights.

Despite the significant devolution of responsibilities under the 18th Amendment, the federal government has maintained a sizable bureaucracy without a proportionate reduction in its role. Expenditure on federal government operations surged from Rs271 billion in 2013-14 to Rs553 billion in 2022-23, a staggering increase of 104 per cent.

Since the 7th NFC Award, FBR taxes have remained stagnant at around 9.0 per cent of the GDP, while provincial taxes have shown growth, rising from 0.3 per cent to over 1.0 per cent of the GDP. The introduction of new criteria in the 2010 NFC Award, including population, revenue generation, poverty, and an area-density factor, aimed to provide a more equitable distribution of resources, benefiting smaller provinces like Balochistan and Khyber Pakhtunkhwa (KP). Credit goes to the PPP here.

Despite the 7th NFC Award’s goal of increasing the tax-to-GDP ratio to 15 per cent by 2014-15, the federal government’s performance fell short, exacerbated by the PTI government’s tenure in 2018. The government’s failure to boost tax revenues and control expenditures led to heavy borrowing, resulting in a 60 per cent increase in total debt to Rs39.8 trillion from FY18 to FY21.

Instead of revisiting the NFC, the government should prioritize addressing the pervasive issue of tax evasion, which contributes to an estimated compliance gap of approximately Rs5.8 trillion annually, equivalent to 6.9 per cent of the GDP. By implementing stringent measures to combat tax evasion, such as improving tax enforcement mechanisms and closing loopholes, the government can significantly enhance revenue generation without disrupting the existing fiscal arrangements.

A comprehensive debt reduction plan is imperative to alleviate the mounting debt burden. This plan should encompass various strategies, including debt restructuring, privatization of state-owned enterprises, and attracting foreign investments. By diversifying revenue streams and optimizing public expenditure, the government can effectively manage its debt obligations and restore fiscal stability.

Transferring the burden of mismanagement solely to the provinces, particularly during the PTI government’s tenure from 2018 to 2021, is both unfair and unsustainable. Instead of disproportionately burdening the provinces, efforts should be directed towards acknowledging their commendable performance in tax collection compared to the federal structure. This recognition can foster collaboration between the federal and provincial governments in addressing fiscal challenges collectively.

A staggering $23 billion per year is being drained out of Pakistan due to black marketing and smuggling. This significant loss underscores the urgent need for robust measures to combat illicit trade activities and strengthen enforcement mechanisms. Addressing this issue effectively is crucial for safeguarding Pakistan’s economy and promoting fair competition within its markets.

The federal government must unequivocally affirm its commitment to upholding provincial autonomy without compromise. It is perplexing why the centre is blaming provinces for wasteful expenditures when, since 2011, pensions and bureaucratic allowances of the federal government have surged nearly sevenfold. This staggering increase underscores the need for the centre to address its spending habits before attributing financial challenges to provincial governments. It is essential for transparency and accountability that the government acknowledges and addresses its fiscal responsibilities before scrutinizing the expenditure of provincial authorities.

Instead of encroaching on provincial shares, the federal government should prioritize enhancing tax collection through the FBR. By focusing on improving revenue generation mechanisms, Pakistan can strengthen its fiscal position without compromising the constitutionally guaranteed rights of the provinces.

Democratic principles and provincial autonomy are intertwined, and any attempts to roll back these measures, such as revisiting the NFC, must undergo parliamentary scrutiny rather than clandestine negotiations.

Upholding democratic norms ensures accountability and legitimacy in decision-making processes, thereby safeguarding the rights and interests of all stakeholders, including provinces and citizens.

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