

7th NATIONAL FINANCE COMMISSION (NFC) AWARD 2010

The distribution of Revenues between the Federation and the Provinces is governed by Part-VI Chapter-1 of the 1973 Constitution. It provides the basic framework for the revenues distribution between the Federation and the Provinces. Article 160 of the Constitution provides for the setting up of a National Finance Commission (NFC) to periodically make recommendations to the President as to:-

- *The distribution between the Federation and the Provinces of the net proceeds of the taxes mentioned in clause (3);*
- *The making of grants-in-aid by the Federal Government to the Provincial Governments;*
- *The exercise by the Federal Government and the Provincial Governments of the borrowing powers, conferred by the Constitution; and*
- *Any other matter relating to finance referred to the Commission by the President.*

The historic announcement of the 7th NFC Award on 18th March 2010 has resolved the long standing issue of distribution of resources between the Federation and Provinces of Pakistan. In the 7th NFC Award the share of Provinces in vertical distribution has been increased from 49% to 56% during 2010-11 and 57.5% during the remaining years of the Award. The traditional population based criteria for horizontal distribution of resources amongst the Provinces has been changed to Multiple-Criteria Formula. According to this criteria 82% distribution was made on population, 10.3% on poverty and backwardness, 5% revenue collection/generation, and 2.7% on inverse population density (IPD).

Federal Government had cut down its collection charges from 5 percent to 1 percent, which would largely benefit the provinces. Realizing the role of Pakhtunkhwa in the war on terror 1% of the net divisible pool was assigned to this Province. Under the new formula, Punjab would get 51.74 percent from the divisible pool, Sindh 24.55 percent, Khyber Pakhtunkhwa 14.62 percent and Baluchistan 9.09%. In the new award Punjab has given up 1.27 percent, Sindh 0.39 percent and Khyber Pakhtunkhwa 0.26 percent, while Baluchistan has gained.

HISTORICAL PERSPECTIVE OF NFC AWARDS

S.No	NAME	DATE OF CONSTITUTION	DATE OF EFFECT
1	NFC, 1974 (1 st NFC)	9 th Feb, 1974	1 st July, 1975
2	NFC, 1979 (2 nd NFC)	11 th Feb, 1979	Remained Inconclusive
3	NFC, 1985 (3 rd NFC)	25 th July, 1985	Remained Inconclusive
4	NFC, 1990 (4 th NFC)	23 rd July, 1990	1 st July, 1991
5	NFC, 1995 (5 th NFC)	23 rd July, 1995 Reconstituted on 10 th Dec, 1996	1 st July, 1997

6	NFC, 2000 (6 th NFC)	22 nd July, 2000 Reconstituted On 13 th Nov, 2003	Remained Inconclusive (However population Ratio was changed From 1.7.2002). Award Issued under Article 160 (6) as Presidential Order No. 1 of 2006 Revising Vertical and Horizontal distribution of divisible pool.
7	NFC, 2009 (7 th NFC)	10 th May, 2010	Consensus Award Announced.

Share of Provinces in the Divisible Pool is elaborated as follows:-

S.No	Financial Year	% Share
1	2006-07	41.50
2	2007-08	42.50
3	2008-09	43.75
4	2009-10	45.00
5	2010-11	56.00
6	2011-12 onwards	57.50

For the first time multiple indicators have been included as the criterion for horizontal distribution amongst the Provinces in the NFC Award 2010 (7th NFC). The multiple indicators and their respective weightage as agreed are as under:-

S.No	Indicator	% weight
1	Population	82.00
2	Poverty/backwardness	10.30
3	Revenue Collection/ generation	5.00
4	Inverse population density	2.70
	Total	100%

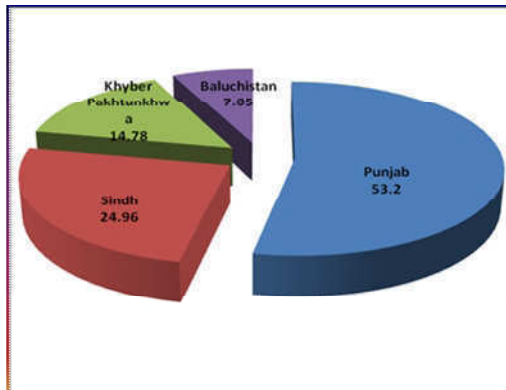
The subvention/special grant and grant in lieu of Octroi and Zilla Tax (1/6th of sales tax) have been abolished. The net share of the Provinces (from the divisible pool and grant for war on terror) as compared to the share allocated on the basis of population and 1/6th of Sales Tax and Special Grant is as under:-

COMPARATIVE POSITION OF SHARE OF PROVINCES IN THE DIVISIBLE POOL

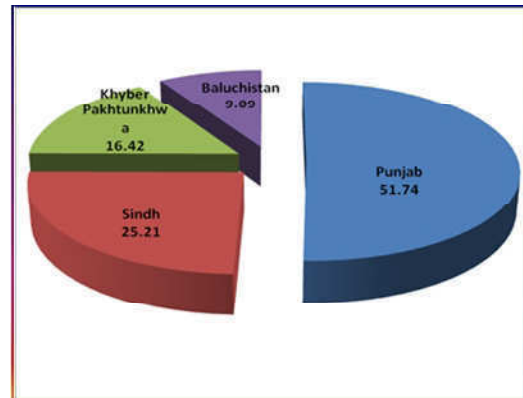
Province	% Share on the basis of previous award	% Share on the basis of 7 th NFC Award	Grant for War on Terror	Grant for Compensation on account of OZ&T	Total % Share
Punjab	53.20	51.74			51.74
Sindh	24.96	24.55		0.66%	25.21*
Khyber Pakhtunkhwa	14.78	14.62	1.80%		16.42**
Baluchistan	7.05	09.09			9.09
Total	100.00	100.00			

* Grant-in-Aid to Sindh, equivalent to 0.66% of the net Provincial Divisible Pool as compensation for losses on account of abolition of OZ&T.

**The grant for war on terror is 1% of the total divisible pool, which is equivalent to 1.8% of the provincial share in the net proceeds of provincial divisible pool.



% Share in the Previous Award



% Share in the 7th NFC Award

Comparative position of the total transfers to Provinces under NFC Award for the financial year 2011-12 is as follows:-

**FUNDS TO BE TRANSFERRED TO THE PROVINCES DURING 2011-12
(Rs in million)**

Province %share	Divisible Pool	1% of total Divisible Pool for War on Terror grant (1.8% of the provincial pool)	Total
Punjab %	530,806.071 (51.74)	--	530,806.071

Sindh %	251,861.017 (24.55)	--	251,861.017
Khyber Pakhtunkhwa %	149,988.109 (14.62)	18,022.142	168,010.251
Baluchistan %	93,255.260 (9.09)	--	93,255.260
Total	1,025,910.457	18,022.142	1,043,932.599

The Net proceeds of Development Surcharge on Natural Gas shall be distributed amongst the Provinces under Article 161(1) of the Constitution. For this purpose the royalty on Natural Gas and Development Surcharge would be notionally clubbed into one and average rate per unit (MMBTU) would be worked out. The rate of excise duty on natural gas shall be raised to Rs. 10 per MMBTU for giving effect to this new formula. Besides, net amount of royalty on crude oil shall be paid to the provinces according to production in each province as per current practice.

The Provinces have been allowed to collect sales tax on services if they so desire. The Provinces shall improve their tax base by effectively taxing the agriculture and real estate sectors and collection system achieving the 15% tax to GDP ratio by 2014-15. The Federal Government will assist the Provinces through specific grants in times of unforeseen calamities.