

REVENUE DISTRIBUTION THROUGH NFC AWARDS

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:-

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

2. Distribution of net proceeds of federal taxes (as may comprise the divisible pool) under Article 160(2)(a) read with clause (3) and Grants-in-aid to the provincial governments under Article 160(2)(b) read with clause (7) which provides for the making of grants-in-aid to provinces in need of assistance and such grants are to be charged to the Federal Consolidated Fund.

3. Taxes referred-to above include:-

- i) Taxes on income, including corporation tax, but not including taxes on income consisting of remuneration paid out of the Federal Consolidated Fund;
- ii) Taxes on the sales and purchases of goods imported, exported, produced, manufactured or consumed;
- iii) Export duties on cotton, and such other export duties as may be specified by the President;
- iv) Such duties of excise as may be specified by the President ; and
- v) Such other taxes as may be specified by the President.

CHRONOLOGY OF THE NFC AWARDS

S.No	NAME	DATE OF CONSTITUTION	DATE OF EFFECT
1	NFC, 1974 (1st NFC)	9th Feb, 1974	1st July, 1975
2	NFC, 1979 (2nd NFC)	11th Feb, 1979	Remained inconclusive
3	NFC, 1985 (3rd NFC)	25th July, 1985	Remained inconclusive
4	NFC, 1989 (4th NFC)	23rd July, 1990	1st July, 1991
5	NFC, 1995 (5th NFC)	23rd July, 1995 Reconstituted on 10th Dec, 1996	1st July, 1997
6	NFC, 2000 (6th NFC)	22nd July, 2000 Reconstituted on 13th 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 <u>Vertical and Horizontal</u> distribution of divisible pool.
7	NFC, 2005 (7th NFC)	21st July, 2005, amended on 26 th August 2008	The Commission has been constituted and the Award is expected in near future.

4. The 6th NFC was constituted on 22nd July 2000, re-constituted on 13th November 2003 by the President of Pakistan which could not reach at a consensus decision and thus the matter referred to the President of Pakistan for exercising his powers under Article 160 (6) of the Constitution, who passed an order called "Distribution of Revenues and Grants-in-Aid (Amendment) Order, 2006", President Order No.1 of 2006.

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

Table 5.1

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 & onward	46.25

6. There are different perspectives of the provinces and the Federal Govt. about the vertical distribution of the revenues. Provinces are demanding 50% of the divisible pool excluding 2.5% GST. There is also difference of opinion about the horizontal distribution amongst the provinces, like Punjab is advocating population based distribution, Sindh wants the distribution on the basis of population, backwardness and revenue collection in the ratio of 77.5%, 12.0% and 10.5% respectively. Baluchistan pleads that the revenues may be distributed as 80%, 10% and 5% for population, inverse population density and revenue collection respectively. Whereas NWFP wants the revenues to be distributed like 80%, 19% and 1% on the basis of population, backwardness and inverse population density respectively.

7. The economic condition of NWFP is evident from the low vital socio-economic indicators of the province vis-à-vis other provinces and country average. Population density in NWFP is 238, which is second highest in the country but it is the highest if the inaccessible and barren areas of Chitral and Kohistan are excluded. Population growth in NWFP is the highest (2.6%), house hold size is the highest (7.5 persons), incidence of poverty or people living below poverty line is 46% which is the highest and which has further increased due to the recent economic recession, per capita income is the lowest i.e Rs.746 (SPDC 2000). Majority of the industrial units are closed or operating below capacity, daily wages are the lowest, unemployment is the highest, female literacy is the lowest (22%) & dependence on remittances is the highest.

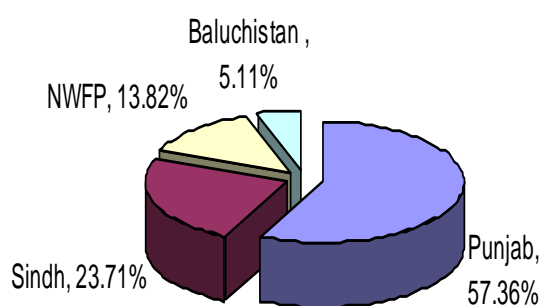
8. In addition to the share in the divisible pool, Provinces are given grant-in-aid out of the Federal Consolidated Fund. The base amount during the first year of the

award, 2006-07 was Rs.27.750 billion which increases in line with the growth in net proceeds of divisible taxes every year. Out of the sum assigned to the provinces, as indicated above, an amount equal to the net proceeds of 1/6th of Sales Tax (2.5% GST) is distributed amongst the provinces in the ratio, based on the actual realization of Octroi and Zilla Tax during the base year 1997-98, when the OZT was abolished. This amount of 2.5% GST is directly transferred to the District Governments and TMAs/Cantonment Boards. This allocation is on account of abolition of the Octroi and Zilla Tax by the Provincial Governments. Ratio of the resource transferred from the federal divisible pool and straight transfers is as under:-

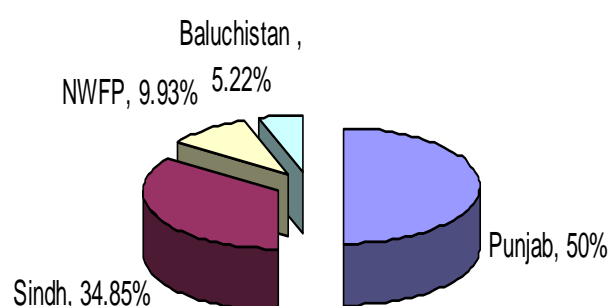
Table 5.2

SHARE OF PROVINCES IN THE DIVISIBLE POOL

Province	% Share in the Divisible Pool (Population Based)	% Share in the Special Grant	% Share in the 1/6 th of Sales Tax
Punjab	57.36	11.00	50.00
Sindh	23.71	21.00	34.85
NWFP	13.82	35.00	09.93
Baluchistan	05.11	33.00	05.22
Total	100.00	100.00	100.00



% SHARE IN THE DIVISIBLE POOL (POPULATION BASIS)



% SHARE IN 1/6TH OF SALES TAX.

9. The aforementioned Presidential Order came into force from financial year 2006-07. According to this arrangement, the revenue transfer to the provincial governments will increase from 45% to 50% over a period of five years. During 2006-07,

provincial governments received 45%, which increased to 46.1% and 47.3% during the financial year 2007-08 and 2008-09 respectively. This year the share has risen to about 49%.

10. Comparative position of the percentage share of the provinces in the total transfers through the above mentioned three channels, during 2006-07, 2007-08, 2008-09 and 2009-10 as compared to the transfers during 1996-97 under the 1996 NFC Award is as follows:

Table 5.3
% SHARE OF PROVINCES UNDER THE NFC AWARD

Province	NFC 1996-97 %	NFC Award 2006-07 %			
		2006-07	2007-08	2008-09	2009-10
Punjab	53.9	52.54	52.77	52.87	53.20
Sindh	21.68	25.2	24.99	25.01	24.96
NWFP	15.69	14.91	14.95	14.89	14.78
Baluchistan	8.73	7.35	7.29	7.23	7.05

11. Comparative position of the total transfers to Provinces under NFC formula for financial year 2009-10 is as follows:-

Table 5.4
FUNDS TO BE TRANSFERRED TO THE PROVINCES DURING 2009-10

(Rs in million)

Province %share	Divisible Pool	1/6 Sales Tax	Grant-in- Aid	Total	% Share
Punjab %	281,437.653 57.36	39,584.758 50.00	4,658.500 11.00	325,680.912	53.20%
Sindh %	116,333.451 23.71	27,590.577 34.85	8,893.500 21.00	152,817.528	24.96%
NWFP %	67,808.026 13.82	7,861.533 9.93	14,822.500 35.00	90,492.059	14.78%
Baluchistan %	25,072.287 5.11	4,132.649 5.22	13,975.500 33.00	43,180.436	7.05%
Total	490,651.418	79,169.517	42,350.000	612,170.935	100%