

# NFC: myths and realities

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Representational image of a graph depicting various variables. — APP/File

ONCE again, the hornet's nest on the NFC is being stirred. In a country with multiple fault lines, to open up settled matters concerning federalism is, to say the least, disingenuous.

The irony is that in the face of the workings of federalism since the 7th NFC and the 18th Amendment, this is being done only to camouflage the incompetence and insecurities of bureaucrats in Q Block and the FBR as well as the intransigence of centrist elites.

The NFC Award was predicated on certain targets, the achievement of which was critical to its medium- and long-term sustainability. One of these targets was that by the end of the tenure of the 7th NFC — 2015 — the tax-to-GDP ratio should increase from 9.0 per cent at the time to 15 per cent of GDP.

At a disaggregated level, the target was for federal government revenue to go up to 13.75 per cent of GDP and provincial revenue to increase up to 1.25 per cent of GDP. Also, the share of provincial taxes was to increase to 9.0 per cent of aggregate tax revenue in 2015 from 3.0 per cent in 2010. Either because of being ill-informed or to deliberately conceal facts, the anti-NFC folk never mention the actual commitments agreed upon by the federal and the four provincial governments in the 7th NFC.

As it turns out almost a decade and a half later, the provinces have done better than the federal government in keeping to their side of the bargain. While FBR revenues have remained static at 9.0 per cent of GDP over this period, provincial governments met the target set for them in 2017 and have hovered around 1.0 per cent of GDP since. The provincial governments have increased their share in aggregate revenues from 3.0 per cent in 2009 to 9.0 per cent back in 2016, as committed in the NFC. In terms of annual growth also, FBR revenues have grown at a rate of 12.8 per cent per annum whereas provincial revenues have increased at 19.3 per cent per annum between 2012 and 2023.

The 2009 NFC Award also allowed the provinces to collect the GST on services themselves for the first time. Sindh took the lead and established its own revenue authority -- and by 2017, all provinces were collecting this tax on their own. Comparing growth in the provincial collection of GST on services with the federal government's collection of GST on goods, we see that provincial collection on GST grew at a rate of 15.7 per cent per annum between 2016 and 2023 while the federally collected GST on goods grew at 8.8 per cent during the same period.

In fact, no matter what revenue indicator we take, it is unambiguous that it is the FBR that has lagged in the revenue effort and not the provinces. This does not mean that the provinces cannot do better, especially on the much-discussed property and agricultural taxes that are in their domain. However, that does not help the federal government; neither does it lower the federal government budget deficit, nor does it swell up its purse strings to undertake other expenditures. Still, the provinces should improve their tax collections in those areas on grounds of horizontal equity.

It is argued that the agricultural tax should be assigned to the federal government. This can certainly be deliberated by the next NFC and by parliament since it requires a constitutional amendment, but is there a guarantee that the FBR will not make a hash of it as it has of other revenue heads under its domain?

There is also clamour about lack of capacity, bad governance and profligate expenditure on the part of provincial governments. As was to be expected when devolution took place, improvements in social development would occur differentially across provinces.

Punjab has invested heavily in infrastructure and seen significant improvements in education outcomes, investments in tertiary health facilities in Sindh have been prominent and Khyber Pakhtunkhwa has attained near-universal health insurance for its citizens.

Having said that, Pakistan's human capital indicators have slipped with regard to other countries and have improved at a snail's pace compared to our own past. This remains a national challenge but there is no evidence to suggest that reverting resources and functions to the federal government will lead to better outcomes. After all, it is not the case that the pre-18th Amendment Pakistan was a haven of human capital development.

In any case, it is a bit rich for centrists to argue for reverting resources and functions back to the federal government, whose own inefficiencies and profligacy are legend. The federal government's economic functions include macro-economic management, international trade, revenue collection, the energy sector, aviation, railways and communications. Perhaps barring communications, its failure in all other areas is nothing short of spectacular. In fact, it is inflicted with the reverse 'Midas touch' – everything economy-related that the federal government touches turns to dust.

There are significant structural issues that require reform if Pakistan is to embark back on a sustainable and inclusive growth path. This requires reducing unwarranted subsidies, reallocating resources to safeguard people against the ravages of climate change, moving towards a progressive taxation structure and initiating pension reforms that threaten to devour the fiscal base of federal as well as provincial governments.

All of this requires a spirit of cooperative federalism rather than the attritional and completely unnecessary assaults on the domains of the federating units.

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