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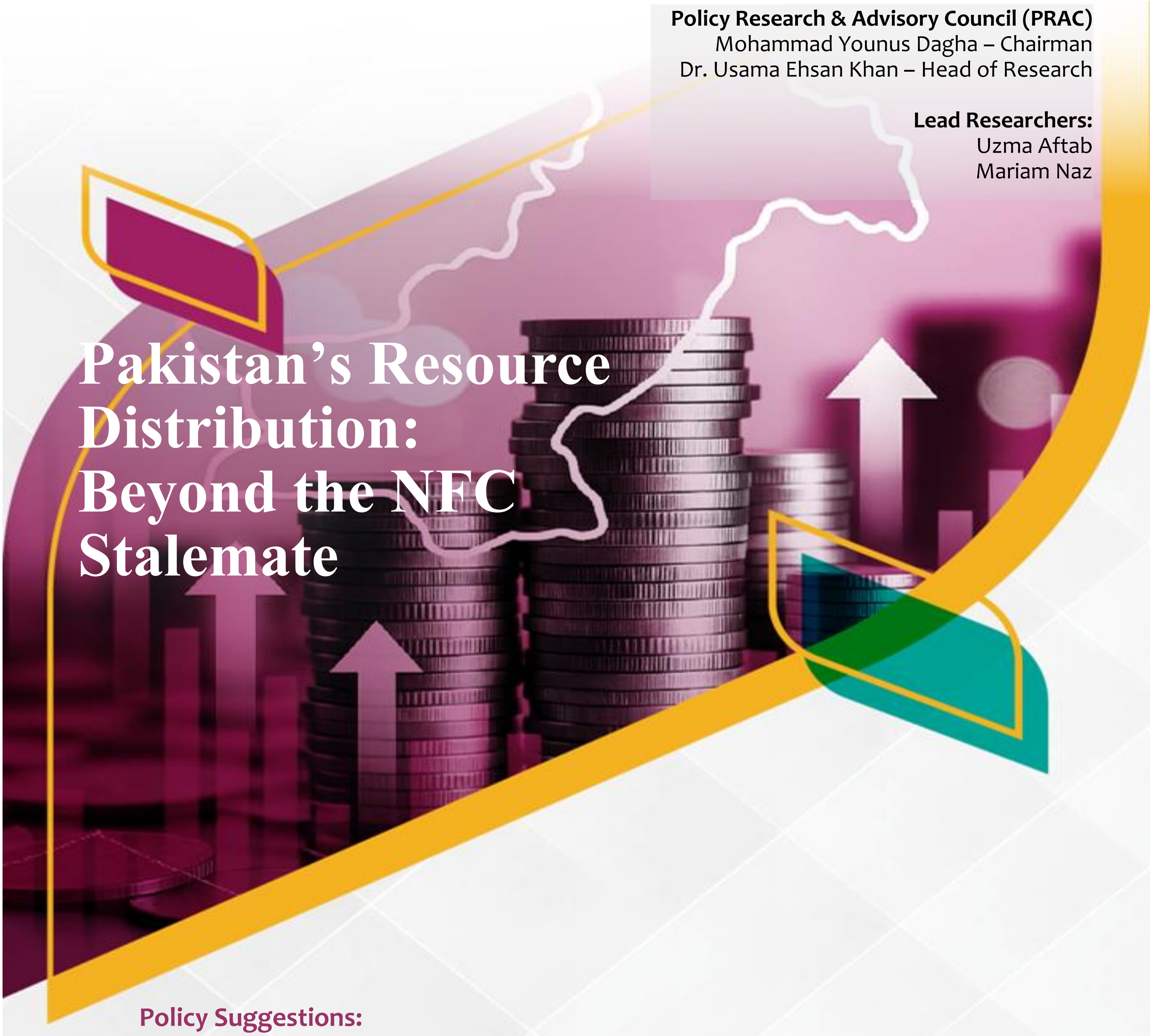


Pakistan's Resource Distribution: Beyond the NFC Stalemate

Policy Suggestions:

Reinforcing the NFC Constitutional Obligation

The constitutional requirement to constitute and implement an NFC Award every five years must be honored without delay.

Provincial Autonomy with Increased Responsibility

While the vertical sharing is protected under the Constitution, the provincial expenditure assignments should be rationalized. This would ease pressure on the federal fiscal space enabling them prioritize long-delayed development projects. Overlapping ministries should be dissolved and responsibilities be shifted to the provinces. Agriculture & Social Welfare being Provincial subjects, BISP and the subsidies relating to agriculture and low-income groups be provided for out of the provincial allocations. PSDP projects in provincial jurisdictions should also be shared, with full responsibility transitioning to provinces over time.

Ensuring Equitable Horizontal Distribution

The 11th NFC Framework should shift from a need-based to an efficiency-based formula. The weightage on population indicator should be reduced to 50%, with 30% weightage to 1998 population and 20% to 2023 population due to inconsistencies with the dejure/defacto approach in census. Indicators such as Revenue Generation, Carbon Credits, and Multi-dimensional Poverty should be included to ensure the formula balances efficiency (rewarding better fiscal effort) with equity (directing more resources to high-need, deprived regions). In addition, fiscal devolution to local governments should be explicitly incorporated as a criterion to incentivise provinces to strengthen and adequately fund the local tier.

Addressing the Anomaly in 7th NFC and restoring Direct Transfers to Local Governments

The one-sixth share in GST on goods provided in DRGO 2006 to compensate the local governments for their losses due to abolition of Octroi and Zila Tax (OZT) should be restored as direct transfers to local governments, in line with the DRGO 2006 formula, as their rightful share and restore their financial capacity lost in 7th NFC.

Empowering Local government through Fiscal Devolution

Provincial shares under the NFC should be made conditional on the operationalization of PFC Awards, with institutional safeguards to ensure equitable distribution of funds to the lowest tier of government. Similar to India, a timeline should be specified for the constitution of PFC Awards following the NFC Award decision, within Article 160(1). The NFC Award should similarly guide the Provincial Finance Commission (PFC) Awards to devolve resources from provinces to Local Governments.

Data-Driven Policy & Resource Distribution

Data collection should be enhanced by regularly compiling and publishing provincial-level data on Multidimensional Poverty Index (MDPI), revenue generation, carbon credits, and other such indicators to enable meaningful comparisons. The federation must then adopt evidence-based, credible indicators to address evolving socioeconomic priorities rather than relying on outdated estimates.

Ensuring Effective Governance through Dispute Mechanism

A robust dispute resolution wing be dedicated for NFC under CCI, for effective fiscal distribution. The committee should convene regular meetings, publish reports ensuring a cooperative, credible, and timely resolution of intergovernmental disputes.

PROPOSED FRAMEWORK FOR 11TH NFC AWARD

Horizontal Distribution Criteria	
Indicator	**Weight (%)**
Population (1998)	30%
Population (2023)	20%
Inverse Population Density	5%
Multi-Dimensional Poverty Index	5%
Revenue Generation	15%
Fiscal Devolution through PFC	20%
Carbon Credits Earned	5%
Total	**100%**

1. INTRODUCTION

The National Finance Commission (NFC) Award is widely considered the cornerstone of fiscal federalism in Pakistan. Established under Article 160 of the Constitution, it serves as a principal mechanism for distributing financial resources from the national pool between the federation and the four provinces in Pakistan based on a decisive consented formula. While it was originally designed to reduce regional disparities and strengthen provincial autonomy by expanding shares and broadening the pooled revenue base, merging OZT transfers into the divisible pool have impeded the fiscal devolution in true essence. The outcomes of NFC Award have fallen short due to political deadlocks, administrative inefficiencies, jurisdictional conflicts, and weak coordination between federal and provincial governments. Since the 7th NFC, negotiations have largely stalled, reflecting unresolved questions around expenditure assignments, revenue buoyancy, and risk-sharing for shocks. These tensions underscore the need for a rigorous reassessment of the framework—assignment of functions, and enforcement mechanisms—to restore credibility and align transfers with performance, service needs, and macro-fiscal sustainability.

2. HISTORICAL EVOLUTION OF NFC AWARDS IN PAKISTAN

To date, Pakistan has undergone seven (7) National Finance Commission (NFC) Awards, as summarized in Table 1. However, only four Awards—1974, 1990, 1996, and 2009—were conclusive in nature. The first NFC was constituted in 1974 under the 1973 Constitution. The NFCs of 2000 and 2006 failed to reach consensus, leading to a Presidential Order (2006).
The NFC Award framework has consistently revolved around two components, as given below:

a. Vertical distribution between the federal government and the provinces
b. Horizontal distribution among provinces, based on selected indicators: Until the 6th NFC Award, population was the sole criterion for allocating among the provinces.

The vertical distribution trend shows a shift from a fixed 20% federal and 80% provincial share in the early NFC Awards (1st–4th NFC). The 5th NFC (1996) increased the federal share to 62.5%, the 6th NFC (2000) adjusted it back to 55% and then further reduced the federal share to 42.5% (7th NFC) and increased provinces' share to 57.5%, highlighting a trend towards greater provincial fiscal autonomy over time (see Table 01).

Table 01: Revenue Sharing Mechanism: A Historical Perspective in Pakistan

	1st NFC (1974)	2nd NFC (1979)	3rd NFC (1985)	4th NFC (1990)	5th NFC (1996)	6th NFC (2000)	PO (2006)	7th NFC (2009)
Status	**Conclusive**	Inconclusive	Inconclusive	**Conclusive**	**Conclusive**		-	**Conclusive**
Vertical Distribution								
Federal	20.0%	20.0%	Interim	20.0%	62.5%	Interim	55.0%	**42.5%**
Provinces	80.0%	80.0%	Interim	80.0%	37.5%	Interim	45.0%*	**57.5%**
Horizontal Distribution Criteria								
Population	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	**82.0%**
Poverty/ Backwardness	-	-	-	-	-	-	-	**10.3%**
Revenue Collection/ Generation	-	-	-	-	-	-	-	**5.0%**
Inverse Population & Density	-	-	-	-	-	-	-	**2.7%**
Aggregate	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Ministry of Finance (MOF)
Note: PO = Presidential Order. Under the 2009 NFC Award, provinces received 56.0% in FY2010–11 and 57.5% for the next four years (FY2011–12 to FY2014–15).
** The provincial share in the net divisible pool must not be less than 45%, and to be increased by 1% per annum until reaches 50%.*

Table 02 shows the evolution of horizontal revenue distribution among Pakistan's provinces under the various NFC Awards (1974–2009). Punjab consistently received the largest share due to the population-based formula, though its portion declined from 60.25% (1974) to 51.74% (2009) once other indicators were introduced. Sindh's and KPK's shares rose from 22.50% to 24.55% and from 13.39% to 14.62%. Balochistan saw the largest gains, increasing from 3.86% to 9.09%, respectively, under the 7th NFC.

Table 02: Revenue Allocation Framework: Distribution among Provinces Based on Horizontal Distribution Criteria

Year/ Provinces	1st NFC (1974)	2nd NFC (1979)	3rd NFC (1985)	4th NFC (1990)	5th NFC (1996)	6th NFC (2000)	PO (2006)	7th NFC (2009)
Punjab	**60.25%**	57.97%	Interim	57.88%	57.88%	Interim	57.36%	**51.74%**
Sindh	**22.50%**	23.34%	Interim	23.28%	23.28%	Interim	23.71%	**24.55%**
KPK	**13.39%**	13.39%	Interim	13.54%	13.54%	Interim	13.82%	**14.62%**
Balochistan	**3.86%**	5.30%	Interim	5.30%	5.30%	Interim	5.11%	**9.09%**
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	**100.0%**

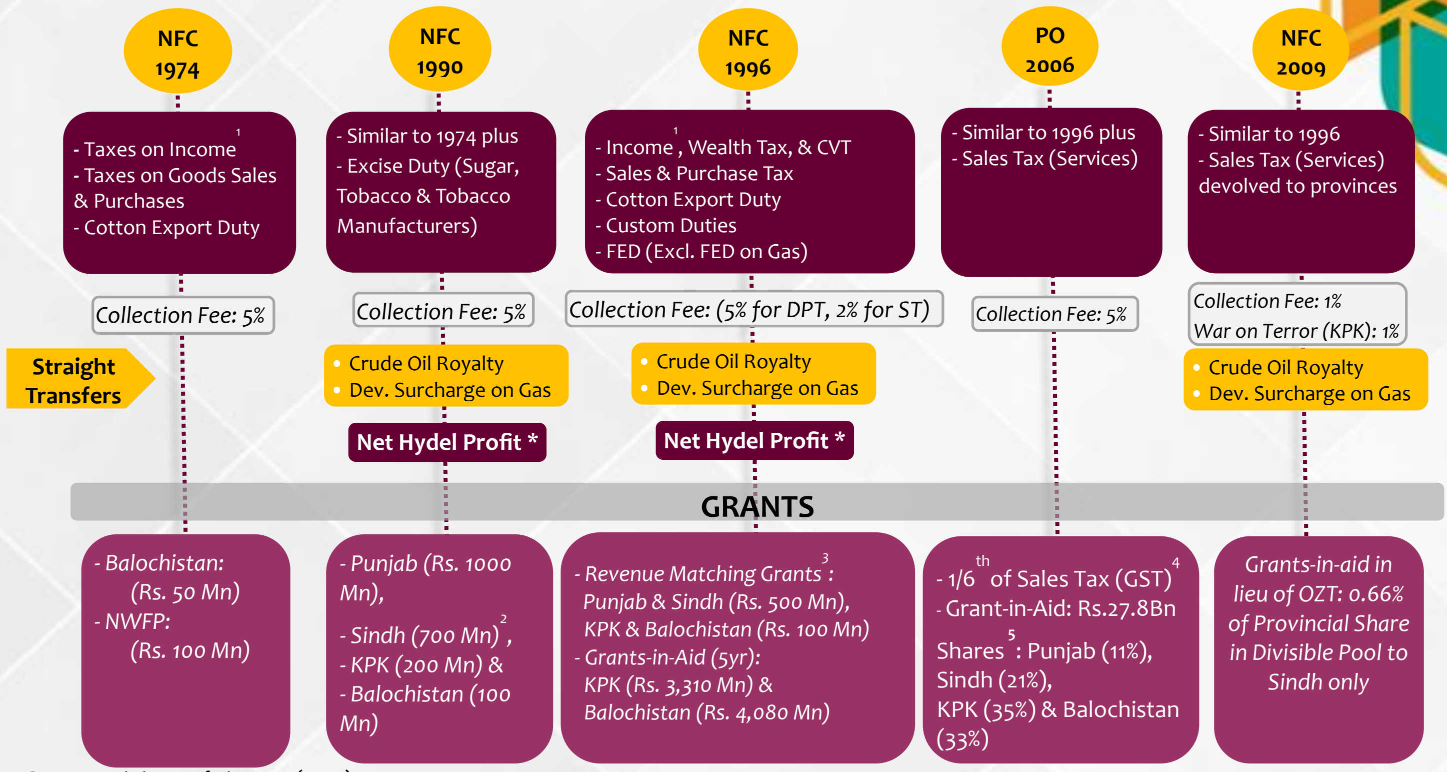
Source: Ministry of Finance (MoF)
Note: The term "Interim" refers to the inconclusive outcome of the NFC, leading to the continuation of the same share as applied in the previous NFC Award. Sindh's share under the NFC 2009 excludes the 0.66% OZT grant, while KPK's share for the same year excludes 1% of the total divisible pool allocated for losses in the war on terror.

2.1. Federal Divisible Pool & Other Grants

Under the National Finance Commission (NFC) Award, the federal government is authorized to collect certain taxes and deposit them in a divisible pool, which is then distributed among the four provinces to meet their fiscal needs based on the horizontal formula. The 1974 pool was narrow, covering only three taxes. By 1990 and 1996, the shared base was significantly broadened to include excise duties (excluding gas), wealth tax/CVT, and customs duties—improving revenue buoyancy and reducing reliance on any single tax handle. Beyond pooled taxes, crude-oil royalties and the net proceeds of the Gas Development Surcharge were treated as straight transfers to provinces. Net profits from hydro-electric stations were to be paid to provinces by WAPDA under the federal government's guarantee.

Grants-in-aid accompanied each award. Initially targeted to underdeveloped regions (Balochistan and NWFP/KPK) in the 1st NFC, these grants were later extended to other provinces too. The 1996 NFC, for the first time, introduced revenue-matching grants for all four provinces, conditional on provincial tax-effort benchmarks; however, this incentive was not continued in the subsequent award, which reverted to general grants-in-aid across provinces

Figure01: NFC Distribution Mechanism- Horizontal & Vertical Distribution



Source: Ministry of Finance (MoF)

[1] Includes Corporation Tax but excludes Income Tax paid out of the Federal Consolidated Fund.

[2] Grants were announced for three years, except in the case of Sindh, where a five-year grant was approved.

[3] The amounts represent maximum limits that will be granted only if provincial revenues achieve a minimum growth rate of 14. 2%.

[4] 1/6th of GST would be distributed among provinces, giving a weight of 50% to the population and 50% to the ratio of collection of audited octroi and zilla tax for the year 1998-99.

[5] The grants were to be increased annually in line with the growth in the Divisible Pool Taxes.

**The Net Hydel Profits were to be paid by WAPDA, guaranteed by the Federal Government.*

2.2. NFC Implementation: Pakistan's deadlock vs. India's Practice

Following the 7th NFC Award, all subsequent commissions failed to reach a consensus, rendering them inconclusive. Consequently, the distribution formula established under the 7th NFC continues to remain in force to date since 2009. In contrast, India constitutes a Finance Commission (IFC) every five years; the most recent award, announced in 2020–21, applies to FY2021–2026, and the Commission also engages an independently hired Economic Adviser to support its work. Under Article 160, the Federal and Provincial Finance Ministers must review implementation biannually and submit a report to Parliament and provincial assemblies. However, the most recently published report available covers only July–December 2022.

Table03: Comparative Analysis–Pakistan vs. India

	Pakistan	India
Fiscal Awards	Seven (**7**) NFCs	Fifteen (**15**) FCs
Last Fiscal Transfer	**2010-11**	**2020-21**
Provinces / States	Provinces: 4 Territories: 3	States: 28 Territories: 8

Source: Ministry of Finance (MoF), Fifteenth Indian Finance Commission, Dawn (2024)

Box 01: Reasons for Stalled NFCs in Pakistan

Reasons for Stalled NFCs in Pakistan

8th NFC, 9th NFC, 10th NFC

- *Provinces' reluctance to give up on their share*
- *Provinces' reluctance to accept additional expenditures*
- *Disputes over non-statutory members of the commission*

2.3. Role of Council of Common Interests (CCI)

The Council of Common Interests (CCI) was primarily intended to promote federal–provincial harmony by framing policies, regulating, and supervising shared subjects.[1] It is accountable to Parliament and must report annually, making it central to genuine fiscal and functional devolution (UNDP, 2015)[2].

Shortcomings of Council of Common Interests (CCI):

- **Irregular Meetings:** Constitution requires a meeting every 90 days, but only 40 were held between 2010–2025 (vs. 65 required) and only 4 between 2022–2025 (vs. 16 required).
- **Weak Enforcement & Transparency:** Despite its constitutional mandate, the CCI has often faced criticism from provincial stakeholders for its limited enforceability, inadequate institutional capacity, and weak dispute resolution mechanisms.[3]

3. Fiscal Imbalances in Federal Transfers to Provinces–Vertical Distribution

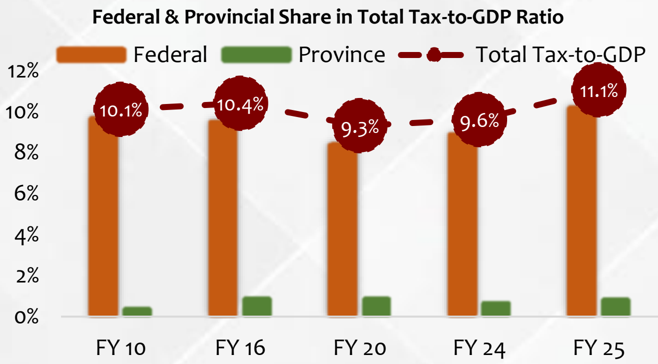
The 7th NFC places higher emphasis on fiscal devolution by keeping 57.5% (FY11 onwards) as provincial share and the rest as the federal (42.5%). However, two commitments were central to this settlement (NFC, 2009):

- **FBR tax effort:** Raise the tax-to-GDP ratio to ~12.3% by 2014–15.
- **Provincial mobilization:** Improve own-source taxes to support an overall GDP tax ratio of 15% by the end of the 2014–15.

3.1. Federal Fiscal Crunch–Limited Fiscal Space amid Growing Expenditure Burdens

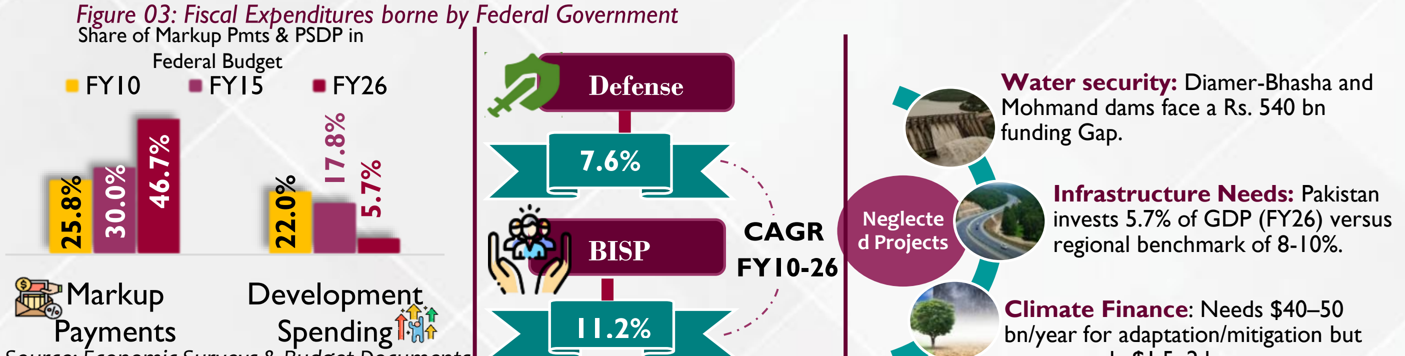
Despite having a broader fiscal base than the provinces, the federal government continues to fall short of achieving the targeted tax-to-GDP ratio. On the parallel side, federal expenditures have become more inflexible: markup (debt-service) payments have consumed a rising share of almost half of the total budget; defence has trended upward; and PSDP has been repeatedly compressed. Development cuts are visible in national projects that have been pending/ stalled for years.

Figure 02: Federal & Provincial Share in Total Tax-to-GDP



Source: Ministry of Finance (MoF)

Figure 03: Fiscal Expenditures borne by Federal Government



Source: Economic Surveys & Budget Documents

Source: Tribune (2025), The News (2023), Dawn (2025).

[1] https://www.pips.gov.pk/wp-content/uploads/2020/12/Parliamentary_Research_Digest_November_2020.pdf

[2] UNDP's Development Advocate – 7th National Finance Commission

[3] https://www.brecorder.com/news/40269228/federalism-constitutions

Structural frictions after devolution: Despite the 18th Amendment, functional duplication persists. Several devolved subjects (e.g., environment, minority affairs, social welfare) still have parallel federal ministries, inflating administrative costs and the federal deficit. A key example is BISP, which remains federally run even though social protection is now a provincial function; its allocations have grown by about 11.2% CAGR, further straining the federal budget.

Table 04: List of Overlapping Ministries at Provincial and Federal Level

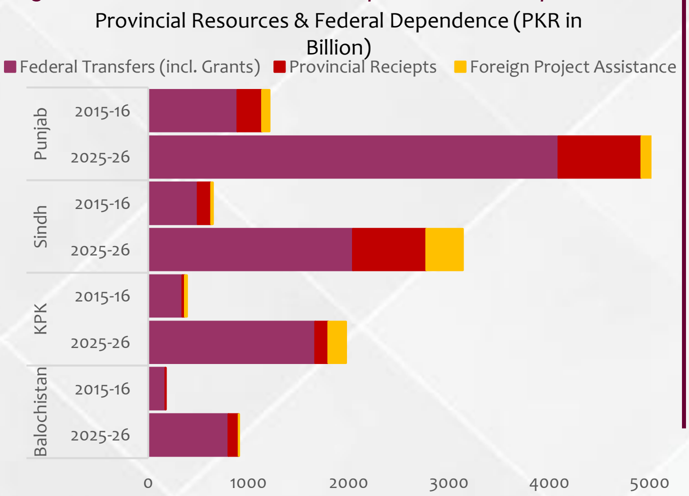
S. No.	Ministries Devolved under 18th Amendment	Existing Federal Ministries
1	**Environment**	Ministry of Climate Change
2	**Health**	Ministry of National Health Services, Regulations & Coordination
3	**Minorities Affairs**	Ministry of Religious Affairs & Inter-faith Harmony
4	**Food and Agriculture**	Ministry of National Food Security & Research
5	**Labour & Manpower, Women Development**	Ministry of Human Rights
6	**Social Welfare & Special Education**	Ministry of Poverty Alleviation & Social Safety Division

Source: Cabinet Secretariat, Government of Pakistan

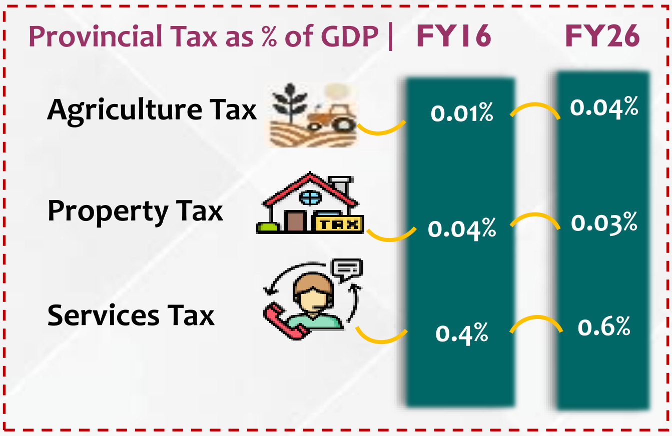
3.2. Stalled Provincial Tax Collection Performance

Provincial governments in Pakistan have made limited progress in tax collection and remain largely dependent on federal transfers, which account for about 60–80% of their total receipts. This trend is reflected in the Figure 04. Growth in service and agriculture taxation has been minimal, while property tax collection has actually declined. This stagnant performance highlights persistent structural bottlenecks and limits provincial fiscal capacity. Additionally, no measures have been taken to enhance the provincial capacity for revenue generation (PIDE, 2021).

Figure 04: Provincial Revenue Receipts & Federal Dependence



Box 02: Provincial Tax Collection over the years



Source: Provincial Budget Documents.
Note: All values are aggregated at the Provincial Level. FY26 figures are budget estimates. For FY2015–16, revised estimates have been used for all provinces except Balochistan.

Article 160 Sec 3A:"The share of the Provinces, in each Award of the National Finance Commission, shall not be less than the share given to the Provinces in the previous Award"

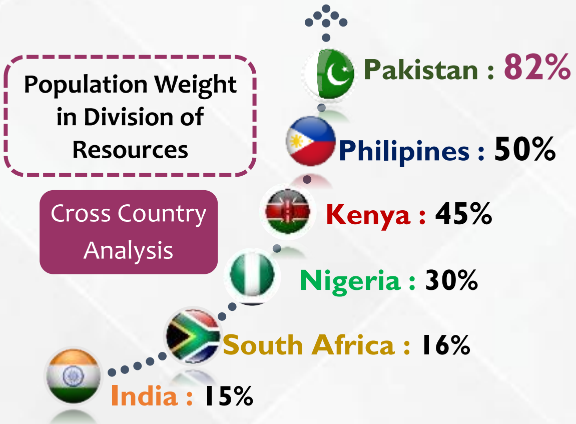
4. Inter–Provincial Revenue Sharing Mechanism - Horizontal Distribution

The 7th NFC Award aimed to strengthen Pakistan's fiscal federalism by expanding the resource distribution framework beyond population to include indicators such as poverty, revenue generation, and inverse population density—intended to promote greater equity and efficiency among provinces.

4.1. Population: Despite reducing the population's weight from 100% in earlier NFCs to 82% in the 2010 Award, the horizontal distribution still leans heavily on population. This single-criterion dominance has invited criticism on multiple fronts.

- **Solely Need-Based Transfers:** Heavy reliance on population (82%) skews resources toward size, creating a disincentive for provinces to control population growth and undermining the balance between equity and efficiency.
- **Politicized measure:** Census data in Pakistan have been politicized, with allegations that provinces manipulated figures to increase their share of transfers (UNFPA, 2025) leading to unfair allocations.
- **Negative Incentive for Population Control:** A high population weight rewards faster population growth, weakening incentives for family planning, human-capital investments, and accurate migration reporting (a classic moral-hazard problem in equalization) (Ahmad, 2024).
- **Flawed Methodology:** The 'de jure' approach[4] (used in the 2023 Census) is considered flawed as it ignores internal migration patterns, counting only permanent residents (based on their legal/ regular residence area). In contrast, the 1998 Census used both de jure and de facto approaches (Dawn, 2023) which is more appropriate approach.

Figure 05: Population Weightage in Fiscal Transfer Mechanisms (Cross Country Analysis)



Source: Ministry Of Finance and Multiple Sources

Box 03: Population Weightage (Cross Country Analysis)

India: *Population weight reduced from 80–90% (first six IFC Awards) to 25% (7th IFC), then to 22.5% (8th IFC), reducing it to 15% (15th IFC) (UNFPA, 2025).*

Nigeria: *Population weight reduced from 50% (kept during 1970–80) → 40% (1981) → 30% (1990), and held at ~30% since. (Sylvester & Ade, 2018).*

[4] De-jure approach: Heads are counted based on their 'usual place of residence'. De-facto approach: Persons are counted where they are found on the census date. While the PBS used the de-jure approach during Census 1998 and planned to use the same for 2017 & 2023, however, even the standard questionnaire to count de-jure population was not followed (Wazir & Goujon, 2019).

4.2. Other Existing Indicators & Identified Gaps:

Poverty/ Backwardness 10.3%

- Based on average of **3 different estimates**, Poverty from PRSP-I (1998-99), & HDI from UNDP's 2003 Report & Statistical Year Book 2008.
- These **outdated** estimates no longer reflect current realities.
- **Insufficient to incentivize** provinces to reduce poverty or improve HDI.

Revenue Collection /Generation 5%

- Allocated as **2.5% for collection** and **2.5% for generation** (via WHT on electricity).
- Still fails to provide a **measure of revenue generation.**
- **Does not capture** provinces' **fiscal efficiency** in mobilizing resources.
- **Minimal 5% weight** understates provincial revenue potential.

Inverse Population Density (IPD) 2.7%

- The inverse population density criterion aims to account for higher service delivery costs in sparsely populated regions.

Source: MOF's NFC 2009 Document, SBP's Special Section 2: National Finance Commissions Awards – A Review' (FY10).
Note: PRSP= Poverty Reduction Strategy Paper-I. PRSP-I titled 'Accelerating Economic Growth and Reducing Poverty: the Road Ahead', published by the Finance Division, based on data from 1998-99.

4.3. Need-Based versus Efficiency-Based Approach

Pakistan's NFC transfers have historically been framed as need-based with population as the dominant proxy for "need." For decades, the formula effectively relied on a single criterion, treating larger populations as automatically more deserving of resources. By contrast, India moved much earlier to a multi-indicator approach incorporating need, equity, and efficiency indicators. Modern transfer systems increasingly adopt incentive-based resource allocation, where equalisation grants are complemented by performance or efficiency funds.

Table 05: Pakistan vs Indian Fiscal Distribution Formula

Indicators	Pakistan	India
Vertical Distribution Share		
Federal/Union	42.5%	59.0%
Provinces/States	57.5%	41.0%
Horizontal Distribution Criteria		
Need-Based Indicators		
Population	82.0%	15.0%
Inverse Population Density	2.7%	
Forest & Ecology	-	10.0%
Area	-	15.0%
Equity-Based Indicators		
Poverty / Backwardness	10.3%	-
Income Distance	-	45.0%
Efficiency-Based Indicators		
Revenue Collection & Generation	5.0%	-
Tax & Fiscal Efforts	-	2.5%
Demographic Performance	-	12.5%

Source: Ministry of Finance (MoF), Commission of Finance, India.

4.4. Proposed New Indicators

New Indicators	Justification
Revenue Generation	*In resource distribution, greater weight should be given to revenue generation, motivating provinces to earn their share rather than relying on federal transfers and remaining passive. Keeping Revenue Generation rather than Revenue collection would encourage provinces to broaden their tax base, reduce leakages, digitise systems improve enforcement.*
Multi-dimensional Poverty Index (MDPI) (Health, & Education, Standard of Living)	*The Multi-dimensional poverty indicator aim to make devolution more equitable and progressive. MDPI reveals "hidden" poverty and regional disparities, capturing deprivations in health, education, and other areas aspects that poverty alone misses, helping direct resources where multiple deprivations overlap.*

Carbon Credits Earned	*Pakistan is one of the most venerable countries to climate change. Using carbon credits as an indicator rewards provinces that actively reduce emissions and enhance carbon sinks, linking fiscal transfers to measurable climate performance. This aligns resource allocation with Pakistan's climate commitments and incentivizes efficient, low-carbon development.*

Sources: UNDP's Fiscal Transfers in Asia (2019)[5], *Business Recorder, (2025)*; 15th IFC document, *Source: 15th IFC Document; PIDE, (2021), The News (2025); Germanwatch. (2025)*, Climate risk index 2025

5. Advancing Fiscal Decentralization beyond NFC

The 18th Amendment was intended to deepen fiscal decentralization by devolving resources and expenditure responsibilities to lower tiers of government. However, this objective remains only partially realized, primarily because provinces have not completed the devolution chain to local governments. The devolution to the local governments before 18th Amendment and 7th NFC was in fact reversed.

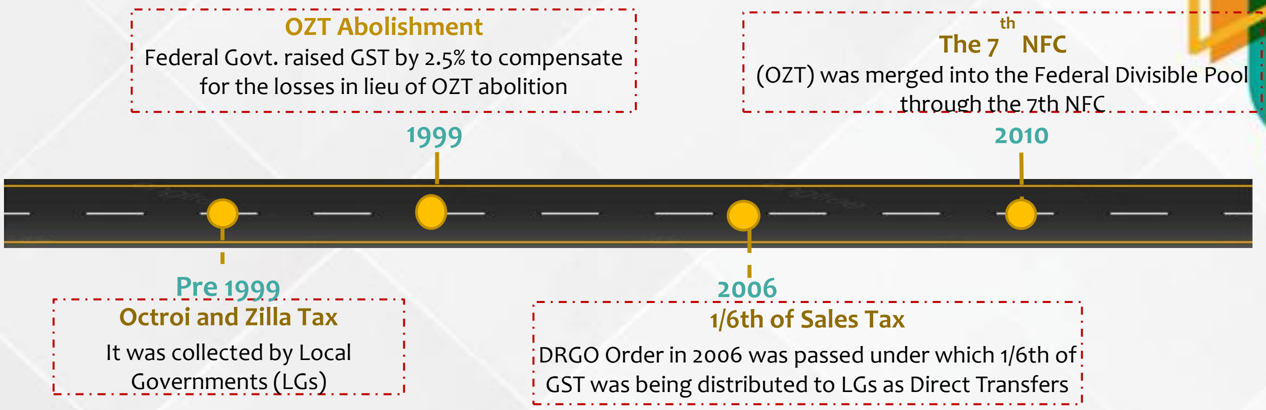
5.1. Octroi and Zila Tax Abolition & the 7th NFC

Octroi and Zila Tax was local tax levied by district/local authorities on goods (commodities) when they enter a municipality or city for consumption, sale, or use — a type of entry tax. This OZT formed a key source of revenue for urban and local councils in Pakistan. Until the late 1980s and early 1990s, Octroi was the single largest source of revenue for many urban local governments across Pakistan. For example, at one point Octroi contributed around 86% of total tax revenues of urban local councils, and over 59% of total local revenue receipts (PIDE, 1995).[6] Because of this, local councils relied heavily on Octroi/Zila Tax to fund municipal services, maintenance, and urban infrastructure.

The timeline below summarizes how local government revenue from Octroi and Zilla Tax (OZT) was gradually absorbed into higher-level tax and transfer arrangements. Pre-1999, OZT was collected directly by local governments. In 1999, OZT was abolished and the federal government raised GST by 2.5%. In 2006, a DRGO order earmarked 1/6th of GST as direct transfers to local governments. Finally, under the 7th NFC Award in 2010, the OZT component was fully merged into the Federal Divisible Pool, formalizing its integration into the intergovernmental transfer system, further dampening local governments' empowerment. Sindh, continue to receive OZT-related grants (~0.66% of the divisible pool) that was supposed to offset historical losses to the local governments. While receiving the entire share of the local governments against the losses of OZT collections, the provinces have since stopped allocating the full share against one-sixth of GST to local governments, contrary to the intent of the 7th NFC Award, perpetuating local revenue shortfalls and limiting fiscal decentralization.

[5] https://www.undp.org/sites/g/files/zskgke326/files/publications/RBAP-2019-Fiscal-Transfer-in-Asia.pdf
[6] https://file.pide.org.pk/pdfpdr/1995/809-829.pdf

Figure 06: Timeline for Octroi/ Zila Tax (OZT)



Source: (Khan & Aftab, 2025)

5.2. Stalled Fiscal Devolution at Provincial Level - PFC Awards

Similar to the NFC at the federal level, the Provincial Finance Commissions (PFCs) are mandated to devolve fiscal resources from provinces to local governments. In practice, however, while NFC consensus has stagnated, PFC awards have been largely inactive or irregular, weakening local governance, undermining service delivery, and widening regional and intra-provincial disparities. As shown in the table below, only Khyber Pakhtunkhwa constituted PFCs with some regularity—up to FY2020–21—after which progress also stalled.

Table 06: Timeline of Provincial Finance Commission

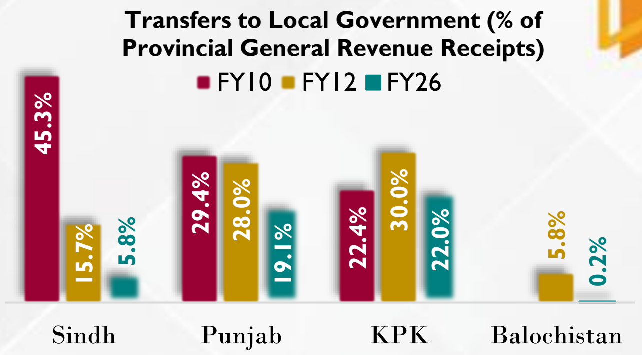
Fiscal Year	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
KPK	1st	2nd	3rd	4th			5th								6th	7th	8th	9th	10th				
Punjab	1st			2nd											3rd								
Sindh	1st		2nd	3rd		4th																	
Balochistan	1st	2nd	3rd	4th	5th																		

Source : Provincial Finance Ministries and Provincial Assemblies

5.3. Eroding Fiscal Space for Local Governments

This fiscal realignment aimed to bring governance closer to citizens by empowering provinces and, crucially, local governments responsible for services like water, sanitation, primary education, and waste management. In practice, however, while provincial revenues have risen (mainly via larger federal transfers), provincial transfers to local governments have shrunk sharply. In Sindh, the local share in provincial revenue fell from 45.3% in 2010 to 5.8% in 2026; Punjab and Khyber Pakhtunkhwa also saw declines of 10.3 and 8 percentage points, respectively. This growing gap shows that effective, accountable service delivery requires better-funded, empowered local bodies that can respond directly to community needs. This widening gap between provincial fiscal space and local allocations underscores that effective and accountable service delivery depends on empowered local bodies, which are best positioned to identify and respond to local needs and development gaps (Khan & Aftab, 2025).

Figure 07: Provincial Transfers to Local Government



Source: Provincial Finance Ministries, Planning and Development Departments, and Financial Statements from the Accountant General - KP

Note: For FY26, Budget Estimates have been used for this analysis. Values for Balochistan for the year FY10 are unavailable.

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