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Towards a **Progressive NFC Formula** to Achieve Pakistan's Development Vision

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Acknowledgment

This paper aims to analyze the prospective improvements in the upstream policy framework necessary for aligning population growth with Pakistan's economic and developmental framework. The report advocates for a revision of the National Finance Commission (NFC) formula, leveraging insights from both global and regional best practices. The goal is to formulate a progressive vision that enhances the development agenda at both federal and provincial levels.

This paper was authored by Dr. Ashfaque Hasan Khan, who serves as the Director General of the NUST Institute of Policy Studies, with financial support of the United Nations Population Fund (UNFPA). The final version benefitted significantly from the valuable insights by Dr. Luay Shabaneh, the Country Representative, alongside contributions from Dr. Rubina Ali, Muqaddar Shah, and members of the UNFPA Senior Expert Advisory Forum, especially Dr. Mohammad Nizamuddin, Dr. Zeba Sathar and Dr. Nasra M. Shah, whose expertise greatly enhanced the quality of the work.

Abstract

The National Finance Commission (NFC) serves as a vital instrument and driver for meeting development goals within federal governance frameworks. Numerous countries apply various iterations of the NFC to facilitate development and address fiscal requirements at the subnational level. Federal systems frequently reassess and update their NFC allocation formulas in response to evolving development priorities and strategic objectives.

The existing National Finance Commission (NFC) formula in Pakistan is outdated and requires significant updates and reforms to effectively address persistent development challenges and to strengthen its role in fulfilling the nation's development vision. The formula's overemphasis on population growth and census data, which has not only politicized the censuses, but also complicated the country's efforts to align its population metrics with economic progress.

It is now crucial to conduct a thorough review (reform) of the NFC formula to redefine its role as a development tool that works independent from population dynamics and integrates a broader developmental goal related to human capital and emerging challenges like climate change.

This paper proposes an alternate formula for NFC that reduces the emphasis on population size and growth and integrates additional factors to support the achievement of development objectives, improve Pakistan's social indicators, and distribute tax revenues more equitably.

Introduction

The National Finance Commission (NFC) is a Constitutional body meant for the equitable distribution of tax revenues between the federal and provincial governments. The NFC is constituted by the President of Pakistan under Article 160 of the Constitution with the mandate to propose a robust framework for revenue allocation for a period of five years. It recommends an appropriate mechanism of revenue sharing between the Federation and among the provinces. The main purposes of the NFC are to strengthen cooperative federalism, improve the quality of public expenditure, and help maintain fiscal stability in the country through a fair distribution of tax resources between the federal and provincial governments on one hand and among provinces, on the other. In other words, the NFC is entrusted with the responsibility of recommending how the country's tax resources are to be shared between the federal and provincial administrations concerning resource availability and expenditure responsibility of both tiers of government.

An efficient and effective system of intergovernmental fiscal transfers constitutes the cornerstone of strong and stable public finances in the country. It is in this spirit that the NFC was formed in 1950 to define the financial relations between the Federal and Provincial governments. The existence of regional disparities in the level of economic activities and revenue generation capacities are not uncommon in a federal *state* like Pakistan. There are two types of imbalances that a federal country suffers : vertical and horizontal. **Vertical Imbalances** are caused by inadequacy of the revenues of Provincial governments to meet their expenditure requirements, owing to low tax base, weaker capacity to mobilize resources on the one hand and their *elaborate* expenditure requirements on the other. In other words, provinces incur expenditure that are disproportionately higher than their sources of revenue in the process of fulfilling their responsibilities. The NFC provides a distribution formula to minimize these vertical imbalances. There must be a consensus among the Federation and the Constituent Units on the formula.

Regarding **horizontal imbalances**, it is well-known that the provinces are at different stages of development, possess varying resource endowments, command differing resource mobilization capacity, and experience both income and development gaps. Recognizing these gaps, the Constitution of Pakistan provides avenues, through the NFC, to address these horizontal imbalances as well. Through the NFC, the Federal government enables the provinces to provide public services to the citizens and improve their living standard. Hence, the purpose of the NFC is to address both vertical and horizontal imbalances in a fair and orderly manner. The NFC provides recommendations to the President of Pakistan which are implemented through a Presidential Order. Pakistan does suffer from both vertical and horizontal fiscal imbalances. The Constitution of Pakistan empowers the federal government to collect taxes from across the country and put them in a divisible pool. These resources are then distributed between the Federal government and the four provinces of the federation so that their financial needs are appropriately met. In Pakistan, over **90%** of taxes are collected at the federal level, while the remaining **10%** are collected at the provincial level. Provinces, therefore, rely heavily on federal resources **(over 80%)** for meeting their expenditure requirements.

Since its establishment, the NFC formula has been designed to be driven by demand rather than to meet developmental goals. Pakistan used

population size as the sole criterion from the first NFC after 1971 (in 1974) until the seventh NFC in 2009/10. However, Pakistan adopted a multiple-criteria formula that included population (still the dominant factor, with 82% weight) and three other factors in distributing resources among the provinces. It has been argued in the literature that population is the least efficient criterion for representing the fiscal needs of provinces, and that the adopted formula, in fact, encourages rapid population growth. Nevertheless, Pakistan continued to use population as the sole criterion from 1974 to 2009[1]. Even after 2009 and until 2024, population remains a dominant criterion. A major criticism on the use of population, as documented in the literature[2], is that it raised many questions on the veracity of the population data. Thus, the results of the country's population census became questionable.

The purpose of this paper is not to highlight the overall weaknesses of the current NFC Award but to concentrate primarily on highlighting the pitfalls of using population as the sole or dominant criterion in resource distribution among provinces. It investigates whether it has distorted Pakistan's population since 1951 onwards, and explores potential changes to make NFC an enabler for country's development vision[3]. In this vein, the study recommends an alternative criterion along with parameters and their respective weights for fair distribution of resources among provinces with a view to addressing the pitfalls of population being the sole or dominant criterion.

In **Section II,** we briefly discuss the historical development of the NFC Awards in Pakistan, from the first NFC in 1951 to the current 7th NFC Award. The use of population as the sole or dominant criterion in resource distribution among the provinces is examined. Its pitfalls, along with their adverse consequences for the economy and social indicators, are highlighted and discussed in **Section III.** International experiences with resource distribution, with a special focus on population as a criterion, as well as Pakistan's census data and how it has been distorted over the years, are documented in **Section IV.**

The Indian experience is very similar to Pakistan's. How India has addressed the issue of population in its finance commission awards, and what lessons Pakistan can learn from these experiences, are documented in **Section V.** Based on international experiences in general, and Indian experiences in particular, an attempt is made to provide an alternative mechanism that includes different parameters and weights for each parameter for resource distribution among the provinces. This exercise is documented in **Section VI.** The final section contains concluding remarks.

1 See "Fiscal Federalism in Pakistan", Pakistan Institute of Development Economics, Islamabad, May 2012, PP.30 for a detailed discussion.

2 *ibid*

3 The overall weaknesses of the ongoing NFC Award are well documented in Ashfaque H. Khan, "7th NFC Award: Has It Worked?" Development Advocate Pakistan, 2(2), 2015, PP.16-20; Ashfaque H. Khan, "Addressing Pakistan's Fiscal Challenges: Lessons for D-8 Countries", Chapter 7 in Economic Integration Among D-8 Countries: Prospects and Challenges, edited by Ahmed M. Khalid, R. James Ferguson, and M. Niaz Asadullah, World Scientific Publishing Co. Pvt. Ltd. Singapore, 2023; Muhammad Zubair Khan, "Time to Revisit NFC Award", published in Business Recorder, March 19, 2024; Shahbaz Rana, "IMF Asks Pakistan to Revisit NFC Award", published in Express Tribune, March 14, 2024; Mehtab Haider, "Unpacking the NFC Award Controversy and Why IMF wants it Revisited", published in The News, March 18, 2024.

Historical Development of NFC

Resource sharing between the federal and provincial governments dates back to Pakistan's independence in 1947. Before 1947, **Niemeyer Award**, under the 1935 Act, was used to allocate resources among central and provincial/state governments in British India. After Pakistan's independence, the same Award was followed with minor adjustments. The **First Award** was prepared by a civil servant, **Sir Jeremy Raisman**, during the government of Prime Minister Liaquat Ali Khan in December 1947. This Award was commonly known as **Raisman Award.** The Raisman Award was later renamed as the National Finance Commission (NFC) Award in 1951. After 1951, three more Awards (in 1961, 1964 and 1970) were enacted. All three of these Awards were enacted during unusual circumstances and therefore, remained inconclusive[4].

Table 1: The Pre-1971 Awards

No	Awards	Presented by	Results	Projected Fiscal Year
First	Raisman Award 1951	Liaquat Ali Khan	Conclusive	1951-55
Second	NFC Award 1961	Ayub Khan	Inconclusive	1961-64
Third	NFC Award 1964	Ayub Khan	Inconclusive	1964-67
Fourth	NFC Award 1970	Yahya Khan	Inconclusive	Terminated

Source: National Finance Commission Award, Wikipedia

One-Unit Scheme was enacted on September 30, 1955, by the Government of Prime Minister Muhammad Ali Bogra, wherein the four provinces of West Pakistan, namely, Punjab, Sindh, NWFP & Balochistan were merged into a single province, to parallel the province of East Pakistan. Resources were distributed between East and West Pakistan on the basis of:

- Gross National Product (GNP) Performance
- Tax Collection

It is interesting to note that population was never considered for resource sharing between the two wings of Pakistan, perhaps because population of East Pakistan was higher than that of West Pakistan[5]. The population of East Pakistan was 55.5 percent and 54 percent according to the Census of 1951 and 1961, respectively. If population had been the sole criterion for resource distribution, as was the case after the separation of East Pakistan in 1971, East Pakistan would have received more resources than West Pakistan from the divisible pool than West Pakistan.

4 See for a detailed historical discussion in Iftikhar Ahmed, Usman Mustafa and Mahmood Khalid, National Finance Commission Awards in Pakistan: A Historical Perspective, Islamabad: Pakistan Institute of Development Economics Working Papers 2007:33, National Finance Commission Award, Wikipedia, (en.m.wikipedia.org) and Usman Mustafa, "Fiscal Federalism in Pakistan: The 7th National Finance Commission Award and its Implications", PIDE Working Papers 2011:73, Pakistan Institute of Development Economics, Islamabad.

5 See "National Finance Commission – NFC", Wikipedia, en.m.wikipedia.org.

Post-1971

After the separation of East Pakistan, a new Constitution was drafted in 1973, and a separate Chapter was added to address the issue of financial distribution, economic equality and economic justice in the "new" Pakistan. The Article 160 of the Constitution of Pakistan laid the foundation of the NFC to address these issues through fair distribution of tax resources between the federal and provincial governments, and amongst the provinces. The First Award in post-1971 Pakistan was unanimously agreed upon and enacted in 1974. This Award was viewed as a step toward decentralization and the strengthening of fiscal federalism in Pakistan to promote equality and balanced economic development. Population size was the sole criterion for the distribution of tax resources between the provinces[6]. From the First to the Sixth Award, population remained the foundation of all the Awards despite repeated complaints by the smaller provinces to include other parameters specific to their issues, such as backwardness, poverty, land are and revenue generation. In the Seventh NFC Award, multiple criteria were used for the distribution of resources amongst the provinces **(see Table 2).**

Table 2: Historical Distribution of Resources (1974-2010)

Factors	NFC 1974	NFC 1991	NFC 1997	NFC 2006*	NFC 2010
Population	100%	100%	100%	100%	82.0%
Poverty/Backwardness	–	–	–	–	10.3%
Revenue Collection	–	–	–	–	5.0%
Inverse Population Density	–	–	–	–	2.7%

***Interim Award was given by the Government of President Pervez Musharraf**

To address vertical imbalances between the federal and provincial governments, the sharing formula changed from one Award to another. **Table 3** documents the formula for each Award.

6 See Usman Mustafa, "Fiscal Federalism in Pakistan: The 7th National Finance Commission Award and its Implications", PIDE Working Paper 2011:73, Pakistan Institute of Development Economics, Islamabad, 2011.

Table 3: Vertical Distribution Formula

Awards	Revenue Sharing Criteria	Vertical Distribution Ratio
First Award	Population 100%	20% Federal 80% Provincial
Second Award	Population 100%	20% Federal 80% Provincial
Third Award	Population 100%	20% Federal 80% Provincial
Fourth Award	Population 100%	20% Federal 80% Provincial
Fifth Award	Population 100%	62.5% Federal 37.5% Provincial
Sixth Award	Population 100%	62.5% Federal 37.5% Provincial
Seventh Award	Pop. 82.0% Backward 10.3% Rev. Gen. 5.0% IPD 2.7%	56:44 57.5:42.5 Prov.: Fed.

A summary of the Awards, from the first (1974) to the seventh (2010) along with the successes or shortcomings are documented in **Table 4.**

Table 4: National Finance Commission Awards 1974-2024

Awards	NFC Award Listings	Presented by	Results	Projected Fiscal Year
First	NFC Award 1974	Zulfikar Ali Bhutto	Conclusive	1974–79
Second	NFC Award 1979	Zia-ul-Haq	Inconclusive	1979–84
Third	NFC Award 1985	Zia-ul-Haq	Inconclusive	1985–90
Fourth	NFC Award 1991	Nawaz Sharif	Conclusive	1991–96
Fifth	NFC Award 1995	Benazir Bhutto	Inconclusive	1995–2000
	NFC Award 1997	Nawaz Sharif	Conclusive	1997–2002
Sixth	NFC Award 2002	Pervez Musharraf	Inconclusive	2002–07
Seventh	NFC Award 2010	Yousaf Raza Gillani	Conclusive	2010–15
Eighth	NFC Award 2010	Nawaz Sharif	Inconclusive	2010 – 2015
Nineth	NFC Award 2015	Nawaz Sharif	Inconclusive	2015-2020
Tenth	NFC Award 2020	Imran Khan	Continuing	2020 - 2025

Source: National Finance Commission Award, ***Wikipedia***. *(en.m.wikipedia.org)*

7th NFC Award

The current NFC Award was agreed upon in December 2009 and came into operation in July 2010. [1]This award was agreed upon after a lapse of 19 years and was finalized in just four months (from August 2009 to December 2009). It amicably resolved many long-standing issues, including the issue of multiple criteria.

The 7th NFC Award used multiple criteria including

1. Population
2. Poverty/backwardness
3. Inverse population density
4. Revenue collection/generation

FEDRAL

44.0%
in the first year of Award

42.5%
in the second year and onward

PROVINCIAL

56.0%
in the first year of Award

57.5%
in the second year and onward

Revenue collection charges were reduced from 5.0 percent to 1.0 percent, thereby increasing the net divisible pool. The provincial share of the divisible pool was significantly larger than the federal government's share. The federal government sacrificed more than 10 percentage points of its share to the provinces.

A comparison of the resource distribution criteria under the 7th NFC Award and its immediate predecessor, the interim award given under the Presidential Order 2006, is provided below. **(Table 5).**

Table 5: Criteria for Distribution of Tax Resources in 2006 and 2009

Criteria	Presidential Order 2006 (Percent)	7th NFC Award 2009 (Percent)
I. Federal Share in Divisible Pool	53.75	44.0 & 42.5
– Provincial Share in Divisible Pool	46.25	56.0 & 57.5
– Grants and Subventions	3.75	–
II. Indicators and Weights		
– Population	100.0	82.0
– Poverty/Backwardness	–	10.3
– Revenue Collection/Generation	–	5.0
– Inverse Population Density	–	2.7
III. Given the Weights, the Provincial share in the Divisible Pool worked out to be:		
– Punjab	53.01	51.74
– Sindh	24.94	24.55
– Khyber Pakhtunkhaw	14.88	14.62
– Balochistan	7.17	9.09

Source: Pakistan Institute of Development Economics, "Fiscal Federalism in Pakistan", May 2012, Islamabad.

Population As Criterion: Some Historical Facts

Population size has been used as a criterion for resource sharing historically in the Indian sub-continent, based on the rationale that it is the best single broad indicator of a state's "need" and, consequently, of the magnitude of resources required. Population was an integral component of the Neimeyer Award under the 1935 Act in India[7]. Post independence, the same resource sharing principle, with certain adjustments, was used both in India and Pakistan in the 1951 Award. Population was, in fact, considered such an important criterion that it was given a weight of 80% to 90% in the first six Finance Commission Awards of India[8]. Population as a criterion reflects the assumption that the expenditure requirements of a province is proportional to its population size. Recent literature has argued that population size is the least efficient criterion for representing fiscal needs of a province[9]. Most countries that use formula – based transfer to sub-nationals (horizontal distribution) do not include population share at all as an indicator in the distribution formula. Countries that do include population share assign a relatively low weight of less than 30 percent. A major problem with use of population, as documented in the literature, is that it raises many questions on the accuracy of population census data. Thus, the results of country's population census can become questionable. Such problems were noticed in Nigeria, where funds were transferred to the sub-national entities solely based on population share. Pakistan is another example where population census has become politically sensitive. India also realized that some states were inflating their population figures to recieve more resources. Hence, with effect from 7th NFC Award, India froze the population share of the states at the 1971 census level and drastically reduced its weight to 25 percent. The Eighth Commission further reduced the weight of population to 22.5 percent from as high as 80 percent to 90 percent during first to sixth Commission[10].

7 See Pakistan Institute of Development Economics, "Fiscal Federalism in Pakistan", May 2012, Islamabad PP.25; and V. Bhaskar and P.S. Subrahmanyam, "Population as a Criterion for Horizontal Devolution by the 14th Finance Commission", Economic and Political Weekly, February 1, 2014, Vol. XLIX, No. 5

8 See "Sixteenth Finance Commission of India", Government of India, New Delhi, 2023-2024.

9 See Usman Mustafa, "Fiscal Federalism in Pakistan: The 7th National Finance Commission Award and its Implications" PIDE Working Papers 2011-73, Islamabad: Pakistan Institute of Development Economics, 2011, PP.5 and 6 for an excellent discussion on this issue.

10 For and excellent discussion on this issue, see "Sixteenth Finance Commission of India", Government of India, New Delhi, 2023-2024.

Population as Parameter: International Experiences

There are 28 countries, accounting for 40 percent of the world's population, that have a federal system of governance. In a federal system, there should be at least two tiers of government: one for the entire country (federal/central) and another for the province/state/region. Institutional arrangements for the distribution of resources can be broadly classified into three categories[11]:

1. Central Agency (central governments ministry)
2. Intergovernmental Forum
3. Independent Agency

In the central agency model, the federal government is directly responsible for transferring tax resources to sub-national entities because it is responsible for collecting taxes and their distribution through fiscal arrangements. Countries that rely on a central agency include the Kyrgyz Republic, Tanzania, Italy, Kazakhstan, the Netherlands, Poland, Ghana, Zambia, China, and Japan. In the intergovernmental forum approach, the forum recommends the criteria for distributing resources between the two tiers of government. This forum facilitates consultation among various levels of government and provides room for limited bargaining among the constituent units. The drawback of this arrangement is that it can hinder decentralization. Countries that rely on an intergovernmental forum include Germany, Indonesia, and Nigeria.

In the independent agency model, the federal government creates an agency to make recommendations on resource transfers to the constituent units. It is simply an advisory body. Australia was the first to establish an independent agency for recommending resource transfers in 1933. Since then, this institutional mechanism has become popular, and other countries, such as India and South Africa, have also adopted this framework. In this arrangement, experts recommend the distribution criteria based on professional knowledge and rigorous analysis of the prevailing environment. The rationale for an independent agency is that it can separate the distribution criteria from politics. After studying the distribution criteria of several developed, semi-developed, and less-developed countries, with reference to population as the sole or dominant criterion for resource distribution, the results are summarized in the **Table 6**[12].

11 For a detailed discussion on various Institutional arrangements see Pakistan Institute of Development Economics, "Fiscal Federalism in Pakistan", May 2012, Islamabad.

12 For a detailed discussion on international experiences, see Pakistan Institute of Development Economics, "Fiscal Federalism in Pakistan". May 2012, Islamabad.

Table 6: Resource Sharing: International Experiences

Countries	Population as Parameter
United States	Nil
Germany	Nil
Canada	Nil
Australia	Nil
South Africa	Yes (7 % weight)
Nigeria	Yes (30% weight)
Sri Lanka	Nil
India	Yes (15 % weight). Reduced population weight from 90% till 7th Commission to 22.5% in 8th Commission. It is reduced further to 15% currently (15th Commission)
Pakistan	Yes (82%). It was 100% from first to sixth NFC. Reduced to 82.0% in 7th NFC

Census-Wise Population growth in Pakistan

Holding a population census has a long history in Pakistan. The first regular Population Census in the area now comprising Pakistan was held in 1881. Since then, regular censuses have been conducted every ten years[13]. After independence in 1947, the first population census was conducted in 1951, the second in 1961, while the third census, scheduled for 1971, could not be held due to unfavorable political environment and the war with India. Consequently, the third population Census was held in 1972 (delayed by one year). The fourth Census was held in March 1981, and the fifth, scheduled for 1991, was again delayed due to the politicization of the Census and political instability. The fifth Census was held in March 1998 – after the gap of 17 years since the fourth Census in 1981[14]. Once again, due to the politicization of the Census, the sixth Census was delayed by 19 years and was held in 2017. The results of the 2017 Census were contested by Sindh government and Karachi administration. The results were accepted by all on the condition that, instead of waiting for ten years (i.e. until 2027), the seventh Census would be held in 2023. Consequently, the seventh Census was conducted during March 1 to May 30, 2023.

Serial No. 38 of the Federal Legislative List, Part-I, Fourth Schedule of the Constitution of Pakistan requires a population census every ten years to count all people living in the country. The importance, centrality, and political sensitivity associated with census results can be judged by the fact that seats in the National Assembly are allocated to each province and federal territory based on population, in accordance with Article 51(3) of the Constitution of Pakistan. Furthermore, the distribution of tax resources between the federal and provincial governments, under the NFC Award, is based on census results, in accordance with Article 160(2) of the Constitution of Pakistan. In addition, federal government jobs are distributed under a quota system based on population ratios of each province and federal territory (Establishment Division's O.M. No. 8/9/72, TVR, dated August 31, 1973). Admissions to government-owned professional colleges and universities are also conducted based on quotas, which themselves are based on population ratios. It goes without saying that accurate counting of people is vital for informed policy making in the country[15]. Hence, a population census is crucial for judicious distribution of tax resources, representation in parliament, electoral processes, jobs quota, and dealing with governance issues, including growing urbanization and improvement on country's infrastructure[16]. The linkage of census results with resource allocation, seats in the Parliament, job quota in federal government and in provincial government, and admission in government – owned professional institutions of higher learning have made the census results highly politically sensitive, resulting in postponement of Census in Pakistan for decades. The census – wise population is discussed below to highlight why the census results became sensitive to different provinces.

13 For a detailed discussion on the history of Population Census in Pakistan, see Pakistan Bureau of Statistics, "Population Census", https://www.pbs.gov.pk.

14 For a critical evaluation of the politicization of Pakistan population Census results, see Anita M. Weiss "Much Ado About Counting: The Conflict over Holding a Census in Pakistan, Asian Survey, Vol. 39, No. 4, July – August 1999, PP.679 – 693.

15 For a detailed discussion on Census in Pakistan, see "Census in Pakistan", in Wikipedia (en.m.wikipedia.org); "Census Story", Pakistan Bureau of Statistics, (http://census.pbs.gov.pk); "2023 Pakistan Census", Wikipedia (https://wikipedia.org); "Demographics of Pakistan", Wikipedia, (en.m.wikipedia.org)

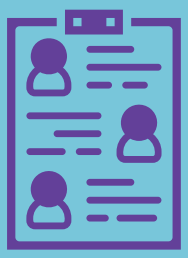
16 See Shamil Shams, "Pakistan's First Census in two decades", DW News, March 16th, 2017.

1951 Census

The first census of united Pakistan was held in February 1951. According to the census, the population of Pakistan was 75.7 million, of which the population of West Pakistan was 33.7 million (44.5%) and the population of East Pakistan was 42.0 million (55.5%). The population of East Pakistan was almost 25 percent higher than that of West Pakistan. Furthermore, the population of East Pakistan was 10 percentage points higher than that of West Pakistan.

Note: Population was NOT a criterion for revenue sharing under the NFC Award.

1961 Census



The second census of united Pakistan was held in January 1961. According to the census, the population of Pakistan was 93 million, of which the population of West Pakistan was 42.9 million (46.0 percent) and the population of East Pakistan was 50.0 million (54.0 percent). The population of East Pakistan was still 16.5 percent higher than that of West Pakistan, but the gap in share was reduced to 8.0 percentage points. It may be noted that during the inter-census period, the population of West Pakistan grew 39 percent faster than that of East Pakistan (1.76 percent per annum in East Pakistan and 2.44 percent per annum in West Pakistan).

Note: Population was NOT a criterion for resource sharing under the NFC Award.

1971 Population

A population census was scheduled for 1971, but it was ultimately postponed due to the unstable situation in the country. The population of Pakistan in 1970 was estimated at 123 million, of which West Pakistan had 58 million (47.2 percent) and East Pakistan had 65 million (52.8 percent)[17]. The population of East Pakistan was still higher than that of West Pakistan, but the gap was narrowing rapidly. The population of West Pakistan grew at an average annual compound growth rate of 3.4 percent, compared to 2.95 percent in East Pakistan, during 1961–1970. The population in West Pakistan grew 15.3 percent faster than in East Pakistan during this period. During 1951–1970, the population of West Pakistan grew at an average rate of 2.9 percent per annum while the population of East Pakistan grew at an average rate of 2.3 percent per annum.

Hence, the population of West Pakistan grew 26.1 percent faster than that of East Pakistan prior to 1971. Table 7 summarizes the population size during the two censuses of 1951 and 1961, and for 1970, for East and West Pakistan separately.

Table 7: Census – Wise Population of United Pakistan (Million)

Census	West Pakistan	East Pakistan	Total Pakistan
1951	33.7 (44.5%)	42.0 (55.5%)	75.7 (100.0%)
1961	42.9 (46.0%)	50.0 (54.0%)	93.0 (100.0%)
1970*	58.0 (47.2%)	65.0 (52.8%)	123.0 (100.0%)

Source: "Population Census of Pakistan", Pakistan Bureau of Statistics as well as "Census in Pakistan", WIKIPEDIA, en.m.wikipedia.org, accessed on November 12, 2024

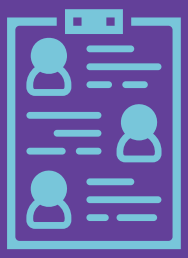
**1970 population was not based on Census. Figures in parentheses are percentage shares.*

17 Pervez Tahir, "When East Overtakes West", Express Tribune, September 22, 2017 (https"//tribune.com.pk/story/1512636/east-overtakes-west/)

1972 Population

The third census of Pakistan, or the first census of the "new" Pakistan (formerly West Pakistan), was held in 1972. This census was held after the dissolution of One Unit in 1972; hence, the census covered the four provinces of Pakistan (Sindh, Punjab, Khyber Pakhtunkhwa (KPK), and Balochistan) and the federal capital, Islamabad. According to the census, the population of Pakistan was 65.3 million in 1972, compared to 58 million in 1970, registering an average compound growth of 6.1 percent per annum during 1970–1972. A growth rate of 6.1 percent per annum is considered extraordinarily high, and various experts raised serious doubts about the accuracy of the population figures[18]. It has been found that since 1951, the population of West Pakistan had been growing at a much higher rate. During 1951–1972, the population of West Pakistan (or Pakistan) grew at a rate of 3.2 percent per annum, compared to 2.3 percent in East Pakistan during 1951–1970. The persistence of such a high population growth rate for over two decades is worrisome unless there were some built-in incentives for West Pakistan to overrepresent itself. When compared with the 1961 census, as stated earlier, experts also questioned the authenticity of the 1973 census results[19].

1981 Census



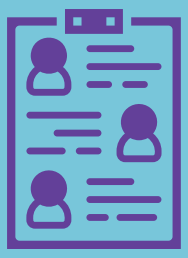
The fourth population census (second in 'new' Pakistan) was held in March 1981. According to the 1981 Census, the population of Pakistan was 84.2 million[20]. During the inter-census period (1972–1981), the population grew at an average rate of 2.9 percent per annum. Pakistan continued to report a high population growth rate despite numerous family planning programs implemented during this period. Pakistan's population continued to grow at a much faster pace despite improvements in social indicators. For example, the literacy rate increased from 16.3 percent in 1961 to 21.7 percent in 1972 and to 26.3 percent in 1981. Similarly, the female literacy rate also showed continued improvement during the period, rising from 11.6 percent in 1972 to 14.8 percent in 1981. The mean age at marriage for females increased from 18.1 years in 1961 to 19.8 years in 1972 and to 20.7 years in 1981. All these improvements failed to slow down the population growth rate according to census data.

18 See Muhammad Afzal (1973), "1972 Census: Population – Expected and Actual", Pakistan Development Review, July 12(2), P.123-134.

19 *ibid*

20 See "Census In Pakistan", WIKIPEDIA, en.m.wikipedia.org.

1998 Census



The fifth population census was held after a 17-year interval in March 1998. Holding population census on time has become a highly controversial and politically sensitive matter in Pakistan[21]. The extraordinarily perverse incentives linked to population size have been the root cause of delays in holding censuses and agreeing on a formula for the NFC Awards. The politicization of the census must be re-evaluated by the state. According to the 1998 Population Census data, Pakistan's population was 132.4 million[22]. It grew at an average rate of 2.9 percent per annum during the period 1981–1998 and exhibited no change in the population growth rate found during the period 1972–1981 (2.9% p.a.). The persistence of a very high growth rate for such a long period more than doubled Pakistan's population in just 25 years—on par with African countries. **(See Table 8)**.

Table 8: Doubling of Population in Years

Country	No. of Years to double population
Pakistan	**25**
Egypt	31
Bangladesh	29
India	36
Africa	24
Asia	33

Source: Teisch, J. and De Sherbinin A (1995), "Population Doubling Time: Looking Backward", Popul Today, Vol. 23, No. 2 February 1995

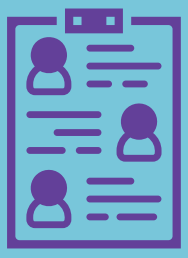
21 For a detailed discussion on the sensitivity of Pakistan's census – based population, as Anita M. Weiss, "Much Ado about counting: The Conflict over Holding a Census in Pakistan", Asian Survey, vol.39, No.4, July – August 1999, PP.679-693.

22 See "Census In Pakistan", WIKIPEDIA, en.m.wikipedia.org.

2017 Census

The sixth population census was conducted after a delay of 19 years. The delay was due to the fear of changes in the population shares of the provinces, resulting in changes in the benefits associated with population size. Pakistan's population stood at 207.7 million in 2017, according to the census. The population grew during the intercensal period at an average rate of 2.4 percent per annum—a slight slowing down, but still higher than the regional average. There was a reservation on the 2017 census results from the Sindh government and the Karachi administration. Both parties claimed that their populations were misrepresented compared to the true population size, resulting in an undercount. They rejected the findings of the 2017 census, which led the Council of Common Interest (CCI) to suspend the publication of the results. Subsequently, during its 45th meeting in April 2021, the CCI ultimately ratified the results and permitted their release, with the condition that Pakistan would undertake another census in 2023[23].

2023 Census



The 2023 census was initially carried out from March 1 to April 1, 2023, but the enumeration period was extended multiple times due to its sensitivities and controversies. Finally, the enumeration exercise was completed on May 30, 2023. The CCI "unanimously" approved the census results on August 5, 2023[24]. According to the 2023 census, Pakistan's population stood at 241.5 million, with an annual average growth rate of 2.55 percent (i.e., between 2017 and 2023). A high population growth rate has persisted census after census in Pakistan ever since the 1951 census (see Table 9), despite the fact that Pakistan's total fertility rate (TFR) registered a significant decline since the 1970s. According to the Pakistan Fertility Survey (PFS) 1979–80, the TFR in the 1970s ranged between 6.3 and 6.5 children per woman. It was close to 7.0 in the early 1970s[25].

23 See "Census in Pakistan", Wikipedia, en.m.wikipedia.org; "2023 Pakistani Census" Wikipedia, en.m.wikipedia.org; and Pakistan Bureau of Statistics, "7th Population and Housing Census – 2023: First Ever Digital Census" Key Findings Report, 2023.

24 See Pakistan Bureau of Statistics, "Announcement of Results of 7th Population and Housing Census – 2023: The Digital Census", 2023.

25 Zeba A. Sathar, "Much – Awaited Fertility Decline in Pakistan: Wishful Thinking or Reality", International Family Planning Perspectives, Vol. 19, No. 4 (December 1993), PP 142 – 146; Iqbal H. Shah, Thomas W. Pullum and Mohmmad Irfan, "Fertility in Pakistan During the 1970s", Journal of Biosocial Sciences, Vol. 18(2), May 1986, PP 215 – 229; and Fred Arnold and Mahboob Sultan, "Fertility", Chapter 4 in Fred Arnold and Ann K. Blanc (ed.), Fertility Levels and Trends, DHS Comparative Studies, No. 2, Columbia, Maryland; Institute for Resource Development/Macro System Inc. 1990.

The recent World Fertility Report 2024 has also reported a further decline in TFR in Pakistan, from 6.01 live births per woman in 1994 to 3.55 in 2024—a decline of 41 percent in 30 years[26]. The decline in TFR since the 1970s was expected for several reasons. First, Pakistan was a pioneer among Asian countries in adopting an official family planning program in 1965. Second, Pakistan witnessed a rising female age at marriage. Third, overall literacy rates in the country for both males and females have increased. Fourth, the country has also witnessed considerable modernization and improvement in living standards in the last four decades. However, this decline in TFR has not been reflected in a corresponding perceptible slowdown in population growth rates in Pakistan. In other words, the significant decline in TFR appears to be inconsistent with the population census data.

How the population in major cities of Pakistan grew during the two census periods (2017 and 2023) provides a glimpse of the sensitivities that census results command. Table 10 documents the extraordinarily high population growth in 22 major cities of Pakistan during the intercensal periods of 2017–2023 and 1998–2017. A cursory look at the table is sufficient to see why the population in Pakistan grew at such high rates for such a long period.

Table 9: Census – Wise Population of Pakistan

Census	Intercensal period	Total population (Millions)	Inter-Census growth rate	Annual Growth Rate
1951	-	33.7	-	-
1961	10	42.9	27.3	2.44
1970*	9	58.0*	35.2	3.41
1972	2	65.3	12.6*	6.11*
1972	11	65.3	52.2	3.89
1981	9	84.2	28.9	2.86
1998	17	132.4	57.2	2.41
2017	19	207.7	56.9	2.40
2023	6	241.5	16.3	2.55

Note: **1970 population is not census – based. It was estimated at 58.0 million in 1970 for West Pakistan (now Pakistan). 1972 population number is Census-based. This was the first Census of Pakistan after the separation of East Pakistan (now Bangladesh)*

Source: *"Census in Pakistan", WIKIPEDIA, en.m.wikipedia.org, accessed on November 12, 2024. See also the references given therein. Pakistan Bureau of Statistics, Islamabad.*

26 United Nations, World Fertility Report 2024, Department of Economic and Social Affairs, New York: United Nations 2025 (UNDESA/pop/2024/TR/No. 10, New York: United Nations)

Table 10: Inter-Census Population Growth Rates of Major Cities of Pakistan

City	Province or Territory	2023 Population	2017 Population	1998 Population	Avg. Annual growth rate 2017–2023	Avg. Annual growth rate 1998–2017 (%)
Lahore	Punjab	13.00	11.12	5.2	2.6	4.08
Faisalabad	Punjab	3.70	3.21	2.00	2.40	2.52
Rawalpindi	Punjab	3.36	2.10	1.40	8.15	2.16
Gujranwala	Punjab	2.67	2.03	1.13	4.67	3.13
Multan	Punjab	2.21	1.87	1.20	2.82	2.36
Sargodha	Punjab	0.97	0.66	0.46	6.63	1.92
Sialkot	Punjab	0.91	0.657	0.421	5.58	2.37
Bahawalpur	Punjab	0.90	0.763	0.408	2.79	3.35
Jhang	Punjab	0.606	0.414	0.293	6.56	1.84
Sheikhupura	Punjab	0.591	0.472	0.280	3.8	2.79
Gujrat	Punjab	0.574	0.391	0.525	6.61	2.34
Sahiwal	Punjab	0.538	0.389	-	5.55	-
Rahim Yar Khan	Punjab	0.519	0.421	0.233	3.55	3.16
Okara	Punjab	0.534	0.358	-	6.80	-
Kasur	Punjab	0.511	0.358	-	6.11	-
Karachi	Sindh	18.88	14.884	9.339	4.04	2.48
Hyderabad	Sindh	1.92	1.733	1.167	1.72	2.10
Sukkur	Sindh	0.564	0.500	0.335	2.03	2.13
Larkana	Sindh	0.552	0.488	0.270	2.08	3.16
Peshawar	KPK	1.906	1.970	0.983	- 0.55	3.73
Quetta	Balochistan	1.565	0.999	0.565	7.77	3.04
Islamabad	ICT	1.109	1.009	0.529	1.59	3.46

Source: Demographic History of Pakistan, WIKIPEDIA (last updated on May 4, 2024)

Note: Basic data are taken from Demographic History of Pakistan. Average annual compound growth rate is calculated by the author using the basic data.

Population grew in the range of **negative 0.55 percent (Peshawar) to 8.15 percent (Rawalpindi) during 2017 and 2023**. In the case of 1998 to 2017, population grew in the range of **1.84 percent (Jhang) to 4.08 percent (Lahore) per annum**. Persistence of such a high growth rate for so long a period defies any socio-economic theories. The four factors that may have contributed to the persistence of extra-ordinary growth in population in Pakistan include:

- Distribution of resources on population basis (NFC Award)
- Allocation of seats in the parliament based on population
- Jobs (quotas) in federal and provincial governments on population basis
- Admissions to government – owned professional colleges based on population (quota)

Such incentives may have encouraged various cities and provinces to overrepresent themselves, resulting in a distortion of the actual size of the population in Pakistan. Pakistani authorities may wish to take notice of this development and take corrective measures.

Consequences of Showing Higher Population

Extraordinary positive incentives associated with population size may have benefited some provinces by maintaining the status quo, but they have certainly affected Pakistan negatively in the global community. The following are some adverse consequences of overpopulation:

- Low per capita income country
- Pakistan is treated as a poor country in the comity of nations
- Higher poverty and unemployment rate
- Poor social indicators
- Lower rank in Human Development Index (HDI)
- Higher cost of borrowing in the international debt capital market
- High maternal and child mortality rates (75/1000 and 178/1000 respectively)
- Low enrolment rate
- Low literacy rate
- More out of school children (22 million)
- Access to clean drinking water (44%)
- Distorted resource and expenditure figures

Bottom Line: Wherever population appears in the denominator, it worsens the picture. An attempt is made here to gauge the consequences of overcounting the population in the country since the first census of 1951. Two scenarios have been generated to estimate the population size since 1951. Scenario I represents a normal scenario, assuming that if the population had grown with slightly declining growth rates and the censuses had been held without any political bias, what the population would have been in 2024. Scenario II represents declining trends in population growth rates, as were witnessed in India and Bangladesh. The population growth rates under the two alternative scenarios (Table 11 and 12).

Table 11: Alternative Scenario – I: Population Growth Rates

Period	Alternative Scenario – I Annual Growth Rate
1951-1960	2.5%
1961-1970	2.45%
1971-1980	2.40%
1981-1990	2.30%
1991-2000	2.2%
2001-2010	2.1%
2011-2020	2.0%
2021-2024	1.9%

Table 12: Alternative Scenario – II: Population Growth Rates

Period	Alternative Scenario – II Annual Growth Rate
1951-1955	2.5%
1956-1960	2.4%
1961-1965	2.3%
1966-1970	2.2%
1971-1975	2.1%
1976-1980	2.0%
1981-1985	1.9%
1986-1990	1.8%
1991-1995	1.7%
1996-2000	1.65%
2001-2005	1.60%
2006-2010	1.55%
2011-2015	1.50%
2016-2020	1.45%
2021-2024	1.40%

As can be seen from Table 13, since the year 2000 onward, both Bangladesh and India witnessed a sharp slowdown in population growth rates. India's population growth rate slowed to less than 1.0 percent per annum, while population growth in Bangladesh slowed to around 1.0 percent per annum. If Pakistan had followed the same trend, what would the population size be today?

The results of these alternative scenarios are documented in **Table 14 and Figure 1**. A cursory look at the table is sufficient to see the difference between the census-based population as reported by the government and the populations projected under the two scenarios. Under the normal scenario (Scenario I), Pakistan's population in 2024 would have been 172 million–very close to the population of Bangladesh (173.6 million in 2024). Under Scenario II, Pakistan's population in 2024 would have been 130 million. Scenario II is very consistent with, or even more conservative than, the population growth rates observed in both Bangladesh and India. In fact, as reported in **Table 13,** the population growth rates of Bangladesh and India have been lower than those projected for Pakistan under Scenario II. **(See Table 12).**

Table 13: Population Growth Rates of Bangladesh and India (Percent)

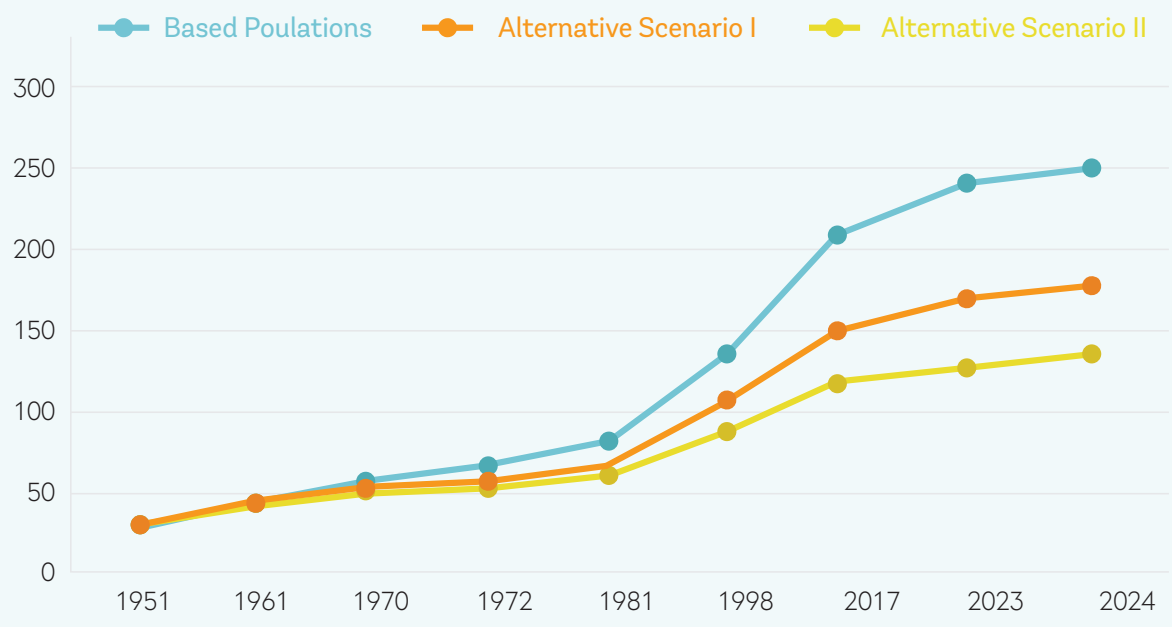
Period	Bangladesh	India
1951	2.06	2.21
1961	2.95	2.34
1971	2.54	2.24
1981	2.81	2.30
1991	1.96	2.19
2001	1.92	1.89
2011	1.23	2.11
2021	1.16	0.80
2024	1.01	0.92

Source: Macro Trends (https://www.macrotrends.org)

Table: 14 Population of Pakistan: Alternative Scenarios

Years	Census – Based Populations	Alternative Scenario I	Alternative Scenario II
1951	33.7	33.7	33.7
1961	42.9	43.1	42.8
1970*	58.0*	53.6	52.3
1972	65.3	56.2	54.5
1981	84.2	69.5	65.3
1998	132.4	101.5	88.0
2017	207.7	150.0	117.8
2023	241.5	168.4	128.3
2024	247.7	171.6	130.0

Fig. 1: Population of Pakistan: Alternative Scenarios



In Scenario I (the normal scenario), Pakistan's population would have been 172 million in 2024—some 76 million, or 30.5 percent, less than today's population (247.7 million). In other words, Pakistan has added the equivalent of one Thailand (72 million), one UK (69 million), one France (66.5 million), or one Italy (59 million) to its population. Under Scenario II, Pakistan's population would have been 130 million in 2024—some 117.7 million, or 47.5 percent, less than today's population (247.7 million). In other words, Pakistan has added the equivalent of one Egypt (116 million) or one Philippines (116 million) to its population.

Pakistan's current nominal GDP in dollar terms in 2023–24 is $375 billion, with a per capita income of $1,552. If Pakistan's population had been 172 million (Scenario I) or 130 million (Scenario II), its per capita income in 2023–24 would have been in the range of $2,185 to $2,884 under the two scenarios. India and Bangladesh's per capita incomes in 2023–24 are $2,497 and $2,624, respectively. If Pakistan's population had been growing according to Scenario I or Scenario II, its per capita income would have been on par with India and Bangladesh. Pakistan's leadership may wish to consider the politicization of the population census and the NFC Award.

How India has addressed the issue of population

Among the international experiences, the Indian experience most relevant to Pakistan[27]. The salient features of the Finance Commission of India (FCI) are summarized as follows: Like Pakistan, the President of India constitutes a Finance Commission (FC) under Article 280 of the Constitution of India for a period of five years.

The job of the Commission is to recommend the distribution of tax revenue between the Union (Federal Government) and the States (Provinces), and among the States themselves. The Finance Commission (FC) consists of five members—one Chairperson and four other members. The qualifications of all members are as follows:

The Chairman will be among the Members who have vast experience in public affairs and an individual of high reputation.

Four Members are appointed with following expertise:

1. A Jude of a High Court
2. Experts on Financial Matters and Administration
3. Experts on Finance and Accounts of the Government
4. Highly reputed Economist

It may be noted that the members, including the Chairman, are all technocrats; hence, it is a depoliticized commission. It may also be noted that not all the states of India are represented on the Commission[28]. These people are highly respected and experts in their respective fields. In Pakistan, on the other hand, the NFC is a highly politicized forum where politicians are members of the Commission along with technocrats—one each representing the four provinces of Pakistan.

However, the decision-making power is vested in politicians. The Commission in India presents its recommendations to the President. The President then lays these recommendations before the two houses of Parliament (Lok Sabha/National Assembly and Rajya Sabha/Senate) with an explanatory note, suggesting actions to be taken on the recommendations.

Table 15: Finance Commission of India

Finance Commission	Year of establishment	Chairman	Operational duration
First	1951	K. C. Neogy	1952–57
Second	1956	K. Santhanam	1957–62
Third	1960	A. K. Chanda	1962–66
Fourth	1964	P. V. Rajamannar	1966–69
Fifth	1968	Mahavir Tyagi	1969–74
Sixth	1972	K. Brahmananda Reddy	1974–79
Seventh	1977	J. M. Shelat	1979–84

27 See "Finance Commission of India – India Policy Notes" http://byjus.com.finance for details.

28 There are 28 states and 8 Union territories in India. See "States and Union Territories of India", Wikipedia, en.m.wikipedia.org

Finance Commission	Year of establishment	Chairman	Operational duration
Eighth	1983	Y. B. Chavan	1984–89
Ninth	1987	N. K. P. Salve	1989–95
Tenth	1992	K. C. Pant	1995–00
Eleventh	1998	A. M. Khusro	2000–05
Twelfth	2002	C. Rangarajan	2005–10
Thirteenth	2007	Dr. Vijay L. Kelkar	2010–15
Fourteenth	2013	Dr. Y. V Reddy	2015–20
Fifteenth	2017	N. K. Singh	2020-21; 2021-26
Sixteenth	2023	Arvind Panagariya	2026 - 31

Source: R. Rangarajan, "On Finance Devolution Among States Explained", The Hindu, February 21, 2024

The recommendations of the FC are implemented for five years. The Parameters and the respective weights of the Parameters may change from one Commission to another. The Parameters and the weights are changed on the basis of the priorities of the government in power. Once the Commission is constituted, the sitting government provide the Terms of Reference (TOR) to the Commission. The TOR basically represents the priorities of the government as part of its fiscal policy. So far 16 Finance Commissions have been constituted which are documented in **Table 15**.

Parameters for Horizontal Distribution among States

Population has long been used as a factor in Indian Finance Commission Awards. It was used because of its simplicity, its effectiveness in capturing inequality, and its relevance to the provision of public services. The higher the population share of a province/state, the more resources the state (provincial) government would receive to meet the basic service requirements of the state. There have been phases in the horizontal distribution of resources in India. The first phase lasted from the 1st to the 7th Finance Commission; the second phase lasted from the 8th to the 10th FC; and the third phase started with the 11th FC and continues to the ongoing 15th FC. India has continued to adjust its distribution formula by learning from its experiences and adapting to the changing priorities of successive governments[29]. Historically, population was allotted a weight of 80 percent for income tax distribution and 100 percent for the distribution of Union excise duties in the first FC. The first seven FC Awards used only two criteria—income tax collection and population share[30]. Population was the largest determinant of horizontal distribution until the 7th FC Award (1951–1979), with weights ranging from 75 percent to 100 percent. In the 8th FC, the population weight was drastically reduced to 22.5 percent, and other factors were included. The reason for this drastic reduction was the realization that some states were over-enumerating during the

29 For a detailed discussion on phase – wise developments, see "Finance Commissions – A Historical Perspective", Finance Commission, India (https://fincomindia.nic.in)

30 *ibid*

population census because the larger the weight of the population, the more resources the state would receive. Those states that were doing well in slowing population growth through various programs were at a disadvantage. Hence, the weight of the population was drastically reduced. The changing weight of population since the 11th FC (2000–05) is reported in Table 16.

Table 16: Changing Population Weight Since 11th FC

Population	11th FC 2000-05	12th FC 2005-10	13th FC 2010-15	14th FC 2015-20	2021-26
Population (1971)	10%	25%	25%	17.5%	-
Population (2011)	-	-	-	10.0%	15%
Demographic Performance	-	-	-	-	12.5%

From the 7th FC (1979–84) Award until the 13th Award (2010–15), the FCI used the 1971 population as a parameter. The 14th Commission added the 2011 population as a parameter, arguing that the 1971 population did not represent the ground reality in 2015. However, the 15th Commission (2021–26) dropped the 1971 population and used only the 2011 population as a parameter[31]. To reward states for slowing population growth, a demographic factor was also included as a parameter. Demographic performance is measured by the inverse of the total fertility rate (TFR).

$$\text{Demographic Performance (DP)} = \frac{1}{\text{TFR}} \text{ X Population (1971)}$$

The Indian FC not only reduced the weight of population but also included Demographic Performance (DP) to reward states performing well in stabilizing population growth. The Indian criteria for distributing resources among the states (for horizontal distribution) provide an excellent opportunity for Pakistan to use such parameters in resource distribution among provinces. In other words, the Indian experience in selecting parameters and their weights is also relevant for Pakistan's Finance Commission. (See **Table 17** for changing parameters and their weights since the 11th FC (2000–05) in India.)

31 See "Finance Commissions – A Historical Perspective", Finance Commission, India (https://fincomindia.nic.in) for historical developments on population as a criterion in Indian Finance Commission.

Table 17: The Criteria for Horizontal Distribution among Provinces over the Last five Finance Commission in India

Criteria	11th FC 2000-05	12th FC 2005-10	13th FC 2010-15	14th FC 2015-20	15th FC 2021-26
Income Distance	62.5	50	47.5	50	45
Population (1971 Census)	10	25	25	17.5	-
Population (2011 Census)	-	-	-	10	15
Area	7.5	10	10	15	15
Forest Cover	-	-	-	7.5	-
Forest and ecology	-	-	-	-	10
Infrastructure index	7.5	-	-	-	-
Fiscal discipline	7.5	7.5	17.5	-	-
Demographic performance	-	-	-	-	12.5
Tax effort/Revenue Generation	5	7.5	-	-	2.5
Total	100	100	100	100	100

Source: R. Rangarajan "on Financial Devolution Among States Explained", The Hindu, February 21, 2024, New Delhi (www.thehindu.com)

The most important parameter in Indian FC Awards since the 11th FC (2000–05) has been income distance, the weight of which has ranged from 45% (15th FC 2021–26) to 62.5% (11th FC 2000–05). The purpose of this parameter in resource distribution among states has been to minimize the income gap between the poorest and richest states. In other words, this is meant to maintain equity among states, which is the main essence of fiscal federalism. Income distance is the difference or gap in per capita income of the states from the state with the highest per capita income (Haryana in the 15th Commission)[32]. The larger the income gap of a state compared to the richest state, the higher its share of resources to minimize the per capita income gap and maintain interstate equity. It is measured as the size of the state's GDP divided by the state's population to calculate the state's per capita income. [1] To minimize fluctuations in a state's per capita income, the FCI took a three-year average (2016–17 to 2018–19). Population is also an important parameter, and its weight has ranged between 10 percent (11th FC 2000–05) and 25 percent (13th FC 2010–15), with a current weight (15th FC 2021–26) of 15 percent. The weight of Area has been doubled from 7.5 percent under the 11th FC (2000–05) to 15.0 percent in the 15th FC (2021–26). Forest Cover has been included as a criterion to enhance India's forest coverage. A state with a larger share of forest coverage in India's total forest coverage will receive more resources from the Union government. This offers a reward to states working towards making India greener. Demographic Performance has been introduced in the 15th FC (2021–26) to reward efforts made by states in stabilizing their population. [2] States with lower fertility rates will score higher on this criterion and, as such, will receive more resources.

32 See R. Rangarajan, "On Financial Devolution Among States Explained", The Hindu, February 21, 2024, New Delhi (www.thehindu.com)

[3] Tax Effort has been used to reward states with higher tax collection efficiency. [4] It is measured as the ratio of the average per capita own tax revenue and the average per capita state GDP during the three-year period 2016–17 and 2018–19. This is basically the state's own tax-to-GDP ratio.

What Pakistan Can Learn from Indian Experience

Among the countries surveyed, India's experience is very close to that of Pakistan. Hence, there are many things that Pakistan can learn from India, which are listed below:

1. The Indian Finance Commission is completely depoliticized. Its members are technocrats, not politicians.
2. Not all the states of India are represented on the Commission. There are only five members.
3. The shares of resources between the Union government and the State governments (vertical distribution) have changed in both directions from one Commission to another, depending on the priorities set by the government, which are reflected in the Terms of Reference (TOR) given to the Commission.
4. India has addressed the issue of population as a factor in the horizontal distribution of resources by not only drastically reducing its weight but also adding another factor (Demographic Performance) to reward States that are making efforts to stabilize population growth.
5. The parameters and their weights for resource distribution among states have also changed from one Commission to another.
6. The parameters and their weights are selected depending on the priorities of the Indian government.
7. The equity concept (income gap) has been considered far more important, allowing states to minimize their income gap—that is, the gap between rich and poor states.
8. India is giving more attention to a green India and, as such, included forest and ecology as a parameter. This will certainly improve forest coverage in India. The total forest area of India is 24.6 percent, compared to Pakistan's total forest area of 4.8 percent in 2021. This difference is, in part, a result of using forest cover as a parameter for resource sharing among the states in India.
9. The recommendations of the Commission are implemented for five years.
10. Once the Commission is constituted by the President, the Government of India provides Terms of Reference (TOR) to the Commission that reflect the priorities of the government in power.
11. Commissions have been set up regularly and on time.

Concluding Remarks

The purpose of this paper has been to highlight the pitfalls of the centrality of population in resource distribution among provinces. Pakistan has used population as the sole criterion for resource distribution among provinces for decades. Although it has added a few more criteria lately, population has remained the dominant one. [1] Population as a sole criterion has been termed in the literature as the most inefficient and ineffective criterion for resource distribution among states. Only a few countries have used population as a parameter, and those that have assigned it low weight. It has been argued that when a country's resources are distributed based on population; when seats in parliament are distributed based on population; when government jobs are allocated based on population (quotas); and when admissions to government-owned professional institutions are given based on population (quotas), it is in the interest of every village, every district, and every province to over-enumerate themselves when population censuses are conducted. There are fears that, because of the central role of population, Pakistan's population may have been overstated. These concerns are supported by intercensal population growth figures. A new formula has been proposed to distribute tax resources among the provinces of Pakistan by scaling down the weight of population; by incentivizing provinces to work towards managing population growth; and by allocating more resources to provinces for improving living standards, improving the HDI, and reducing income inequality among provinces.

Recommendations

The purpose of this paper has been to highlight the pitfalls of using population as the sole or dominant criterion in the distribution of tax resources among the provinces under the NFC Award. The current NFC formula has politicized the statistical system and provided incentives for provinces to over-enumerate themselves during the population census. Therefore, the size of the population and its growth rate have become politically sensitive due to the following facts.

1. The country's resources are distributed among the provinces based on population under the NFC Award.
2. Seats in the National and Provincial Assemblies are distributed based on population size.
3. Government jobs, at both the federal and provincial levels, are allocated based on population (quota system).
4. Admissions to government-owned professional institutions, like medical and engineering colleges, are based on population (quota system).

Such incentives are sufficient for every province to over-enumerate itself during the census. When provinces overrepresent themselves, the country's population size becomes exaggerated, and per capita income is underreported. A higher population adversely affects the country's socio-economic indicators and may distort the country's planning and development efforts. Both India and Pakistan started their Finance Commission Awards and population censuses in the same year (1951). Indian authorities, who initially also gave high weight to population in their Finance Commission Awards, experienced similar issues with some states over-enumerating their population to receive more resources. While India addressed these problems, Pakistan continued to give population a dominant role in resource distribution. Population became so politicized that censuses could not be held on time, and political leadership repeatedly failed to develop a consensus on the NFC Award. How can Pakistan address these problems by learning from the Indian experience? The proposed recommendations are presented below:

De-Politicization of the NFC

Currently, the President of Pakistan constitutes a Finance Commission for five-year terms under Article 160 of the Constitution. The President may constitute the Commission with non-political figures. The members and formation of the NFC could be as follows:

1. The Commission may consist of five members, one of whom can be appointed as Chairperson.
2. The Chairperson will have vast experience in public affairs and can be a well-known economist/finance expert/retired judge of the Supreme Court or High Court/a retired senior civil servant with impeccable character. The four members shall be appointed from among persons who:
   - are, or have been, or are qualified to be appointed as judge of a High Court.
   - have special knowledge of finance and accounts of the government (may be the retired Auditor General of Pakistan)
   - have broad experience in financial matters and administration (may be a retired Finance Secretary)
   - have special knowledge of economics (highly reputed economist of the country).

The Commission will have a Secretariat with professional and administrative staff to provide research and secretarial assistance to the Chairperson and Members of the Commission. Once the Commission is constituted by the President, the government may provide the Terms of Reference (TOR) to the Finance Commission at the beginning of its term, based on the priorities of the government. The Commission will have the authority to change the parameters and their weights for resource distribution between the federal and provincial governments, and among the provinces, to complete its assignments according to the TOR provided by the government.

Proposed Structure and Weights for NFC

The purpose of the NFC Award is to provide sufficient resources to the provinces so that their administrations can provide better services to the population. Furthermore, it is the federal government's responsibility to minimize inequity among the provinces. The gap between rich and poor provinces needs to be minimized for the sake of equity. In addition, it is the responsibility of the federal government to provide adequate resources to provinces so they can improve their social indicators (HDI) and demographic performance. How can these objectives be achieved? The proposed parameters and their weights are a step in that direction. The centrality of population and its extraordinarily high weightage appear to have distorted Pakistan's population figures. This "exorbitant privilege" given to population in the distribution of resources among the provinces may be minimized. The proposed distribution criteria are presented in **Table 18.**

Table 18: Proposed Criteria for Horizontal Distribution Among Provinces

Parameters	Weight (Percent)
Income Gap	30
Population (1998 Census)	15
Population (2023 Census)	10
Demographic Performance	17.5
Human Development Index (HDI)	10.0
Area	7.5
Tax Effort	5.0
Forest Cover	5.0
Total Weights	100

Income Gap: The income gap represents the difference in per capita income of a province compared to the richest province in Pakistan. It is a fact that some provinces in Pakistan are relatively rich, while others are less so. The question is how to minimize this income gap among the provinces. How can this be calculated? We calculate the per capita income of each province by dividing the Gross Domestic Product (GDP) of the province by its population. We take a three-year average of the per capita income of each province. The richest province is selected as the benchmark,

and we calculate the income gap of the remaining provinces compared to this benchmark province. The larger the income gap of a province compared to the richest province, the more resources it receives to minimize that gap.

Population: The current weight of population is 82 percent. This weight needs to be reduced significantly to avoid controversy related to census results. It is proposed that the weight of population be reduced to 25 percent, with 15 percent weightage given to the population from the 1998 census and 10 percent to the population from the 2023 census for each province. The reason for using the 1998 population is that this census was held under the supervision of the Army and was considered relatively less controversial. The 2023 population will represent the current status of each province.

Demographic Performance: This criterion has been included to reward provinces for their efforts in stabilizing their population growth. Provinces with lower fertility rates will score higher on this criterion and, as such, will receive more revenue. A weight of 17.5 percent is allotted to this criterion. Demographic Performance will be measured by the inverse of the total fertility rate (TFR).

$$\text{Demographic Performance (DP)} \ \frac{1}{\text{TFR}} \ \text{X Population (1998)}$$

It is expected that the provinces will make efforts to ensure the success of Family Planning Programs in their respective regions.

Human Development Index (HDI): The HDI attempts to look beyond just statistics, money, and numbers when assessing the level of development of a province. Economics (representing standard of living), health, and education are the three main parameters of the HDI that are assessed when calculating its value. Pakistan currently ranks low (164) in this index globally. The federal government needs to provide adequate resources to the provinces to improve their respective HDIs. A weight of 10 percent is proposed for this criterion.

Area: A weight of 7.5 percent is allotted to area as a criterion. The rationale behind this factor is that larger provinces, in terms of area, will require more resources to care for their populations.

Tax Effort: A weight of 5.0 percent is allotted to the tax effort made by the provinces. This criterion is proposed to reward provinces with higher tax collection efficiency. It will be measured as the ratio of the average per capita own tax revenue collection and the average per capita GDP of the province during a three-year period. This is basically the provincial own tax-to-GDP ratio. The higher the ratio, the more resources the provinces will receive from the divisible pool.

Forest Cover: This criterion has been proposed to increase Pakistan's forest coverage and improve the climate. A weight of 5.0 percent is proposed for forest cover. A province with a larger share of forest coverage in the total forest cover of Pakistan will receive more resources from the divisible pool. This is an incentive for provinces to make Pakistan greener.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