

## **Panel: Practicing Fiscal Decentralisation: Gaps and Challenges**

Following the 18<sup>th</sup> Constitutional Amendment in 2010, the Federal Government devolved fiscal, planning and administrative powers to the provinces (PIDE and FoF 2012). Transfers of fiscal resources from federal to provincial governments are regulated by the National Finance Commission (NFC) established under Article 160 of the Constitution of Pakistan. The NFC determines the NFC award, which fixes distribution of fiscal resources in the form of ‘divisible pool’<sup>1</sup> transfers to the provincial governments (Pasha and Pasha 2015).

At the same time, Article 140A of the 18<sup>th</sup> Amendment prescribes the provinces to establish, by law, a Local Government System (LGS) and to devolve political, administrative and financial responsibility and authority to the elected representatives of the local governments. In light of this, fiscal resources need to be transferred from the provinces to the local government through the Provincial Finance Commission (PFC).<sup>2</sup>

The fiscal decentralisation architecture in Pakistan faces several critical issues hindering effective public service delivery at national and sub-national levels. Fiscal imbalance with financial gaps at the federal level is one of the major issues due to which the 7<sup>th</sup> NFC award has led to vertical monetary imbalances between the Federal Government and the provinces. Moreover, the high dependency of provincial and local governments on fiscal transfers might result in negative incentives for revenue generation at their level.

Insufficient horizontal equalisation is another major policy concern that needs to be addressed in order to promote equal opportunities for the less developed areas to achieve the Sustainable Development Goals (SDGs) of the 2030 Agenda for Sustainable Development under the principle of ‘Leave No-one Behind.’ All the aforementioned gaps and challenges need to be further explored to strengthen fiscal decentralisation since the latter is crucial to support the process of localising the SDGs.

The goal of this panel is to discuss the role of NFC and PFC awards in sustaining the LGS created under the 18<sup>th</sup> Constitutional Amendment. Government representatives, researchers and experts on fiscal decentralisation will present their views in the panel. Key issues which will be highlighted include:

- Best practices, lessons learnt, and common challenges from peer countries in Asia and from Germany.
- What are the common challenges in fiscal decentralisation in Pakistan and peer countries in Asia?
- How can fiscal imbalances due to differences in assignment of functions and devolution of taxation powers between different tiers of government be reduced?

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<sup>1</sup> The divisible pool of resources under the 7<sup>th</sup> NFC award consists of taxes on income, wealth tax, GST, export duties on cotton, customs duties, and federal excise duty, excluding on gas. The sales tax on services (CE mode) was devolved to the provinces.

<sup>2</sup> See Article 140A, Constitution of the Islamic Republic of Pakistan 1973, as amended under 18<sup>th</sup> Constitutional Amendment.

- How can the horizontal distribution formulas of the NFC and PFC awards be modified to favour less developed areas under the principle of ‘Leave No-one Behind’?

Additional points which will be addressed in the panel include:

- How can the fiscal gap at the federal level be closed?
- How can the format and the composition of the NFC or PFCs be modified to better adapt it to the challenges of fiscal decentralisation under the 18<sup>th</sup> Constitutional Amendment?
- What role can/should the 2030 Agenda and the SDGs play in determining the design of the NFC and PFC awards?
- How can local governments be incentivised to generate their revenues through the PFC distribution formula?
- Are there good practices elsewhere that could guide the design of NFC/PFC in Pakistan?

### References

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