5

Central Budgetary Transfers in Pakistan, 1971–91

The Predominance of Federal Finances in Pakistan

Pakistan and India both inherited the same colonial institutional order, but since independence differences have arisen in the financial relationship between the federal government and the provinces in the two countries. These differences have given Pakistan a far more centralized financial system. The federal governments in both countries have, as a matter of course, taken over the duties and the entire funding for such matters as foreign affairs, defense, and broadcasting and communications. But in such areas as labor, welfare, electric power, and transportation, the two countries are markedly different. In India these are regarded as functions primarily belonging to the state governments while in Pakistan the federal government has acquired an overwhelming importance in these areas. Table 5-1 shows what portion of a five-year plan in both countries was undertaken by the federal government. The time frame of both plans largely overlapped, and as can be seen from the table, the federal government in Pakistan undertook an overwhelming share in the areas of agriculture, water resources, and electric power.

The figures in Table 5-1 provide a clear indication of the federal government's overwhelming dominance in Pakistan, particularly when compared with India. The reasons for this dominance in Pakistan are (1) the preemptive nature of federal expenditures, i.e., the large sums needed to cover expenditures for defense and for interest and repayment obligations on foreign assistance, (2) the assumption of control over major development activities by the federal government and the public enterprises under its control rather than by the provincial governments, and (3) the weak economic base of the provinces which hinders their ability to raise their own tax revenues.

TABLE 5-1
SHARE OF CENTRAL GOVERNMENT ALLOCATION IN FIVE-YEAR PLANNING

(%)

Sectors	India Seventh Plan (1985–90)	Pakistan Sixth Plan (1983–88)
1. Agriculture	38.4	61.5
2. Irrigation and flood control (India) / Water (Pakistan)	4.9	75.1
3. Power	32.2	99.4
4. Industry and minerals	82.6	86.7
5. Transport and communications (Pakistan) /		90.4
Transport (Inida)	71.4	
Communications (India)	98.4	
6. Housing and urban development (India) / Physical planning and housing (Pakistan)	10.8	40.6
7. Education, culture, and sports (India) / Education and manpower (Pakistan)	27.4	52.6
8. Health	26.5	36.0

Sources: For India, Commission on Centre-State Relations, *Report, Part I,* Annuxure XI.6, pp.399–401 (1988); for Pakistan, Planning Commission, *The Sixth Five Year Plan, 1983–88* (1984), pp.44, 513.

Despite this federal dominance however, the nominal growth of provincial expenditures during the twenty years from 1971 to 1991 was twice that of the federal government, and the scale of provincial finances expanded much more rapidly than that for the federal government. As will be shown hereafter, however, this growth in expenditures was not due to an increase in the provinces' own tax revenues, rather this growth was sustained through grants and loans that came from the federal government. In other words, this very significant increase in the amount of grants and loans from the federal government to the provinces after 1971 took place within a financial structure dominated by the federal government.

The secession of Bangladesh in 1971 symbolized the coming of an era when Pakistan could not longer neglect its villages and their agricultural development, education, health, sanitation, and housing without incurring political risks. In the remainder of this chapter we will compare the system of budgetary transfers in the highly centralized federal state of Pakistan with that of India which was examined in Chapter 3.[1]

Budgetary Transfers from the Federal Government to the Provinces

Regional disparities and the lack of balance between the central and provincial governments over responsibilities and financial resources are by no means new phenomena in Pakistan. Until 1971 the disparity between East and West Pakistan was the central point of contention affecting national unity. After 1971 and the revelation of dissatisfaction with the country's administrative services, the economic and cultural differences between Punjab and the other provinces provided kindling for another potential political confrontation. In the midst of these uncertain political conditions the government carried out a number of modifications vertically (federal to provincial level) and horizontally (among the provinces) in the existing system for redistributing finances.

When examining Pakistan's budgetary transfer system, one needs to keep in mind that it grew out of the framework of the Government of India Act of 1935. The system in India also goes back to this law of 1935, however since independence it has undergone substantial change. In Pakistan meanwhile, there has been very little change in the system, a fact which further reflects the weak administrative, financial, and political position of the provinces when compared with the states in India.

In the next sections we will deal with the four provinces of Punjab, Sindh, North-West Frontier Province (N.W.F.P.), and Balochistan. Matters concerning the transfer of grants and loans through the Ministry of States and Frontier Regions and Kashmir to the regions under its jurisdiction, while important, will not be taken up in detail in this chapter.[2]

In the discussion below it will be convenient to divide budgetary transfers into three principal forms.

Allocation of federal taxes and excises to the provinces

These allocations take the form of block grants through which the federal government passes on a portion of its taxes and excises as revenue for the provinces. These grants are for unspecified expenditures, and can be used by the provincial governments as general revenue. Since the Government of India Act of 1935, a number of changes have been made in the system of allocation (see Appendix 5-1). At present grant allocations are applied in accordance with the recommendations of the National Finance Commission (NFC) as stipulated in Article 160 of the 1973 Constitution. In 1975 in compliance with this article the NFC recommended allocations from a number of taxes including the income tax (which also subsumed the corporation tax), the sales tax, and the cotton export duty. These recommendations remained in effect until revised sixteen years later in 1991 when the excise duty on sugar and those on cigarettes and on cigarette manufacturers were added to the above taxes. Allocations from excise duties and payments on royalties also went to the two natural gas producing provinces of Balochistan and Sindh in accordance with the stipulations set forth in Article 161 of the 1973 Constitution. In the NFC recommendations of 1991, allocations from royalties on crude oil were added to the above (see Appendix 5-2).

Since the inception of the transfer system, the only criterion used for allocating federal taxes (including excises) among the provinces in Pakistan has been the ratio of population. Even the most recent recommendations of 1991 employed this means. This is quite unlike the situation in India where a concept like the Gadgil Formula has been employed to correct the disparities among the regions.[3] For Pakistan to introduce such a concept, there have to be statistics on regional income for the provinces as well as a variety of other sufficiently objective statistics. At present there is an insufficient amount of such objective data on the differences among the provinces.[4]

Financial grants from the Ministry of Finance

The allocation of federal taxes and excises is an obligatory expenditure that the Ministry of Finance carries out for the federal government; however the second category of transfers is discretionary, and there are no criteria for regulating the amounts or the ratios of these allocations. They are all grants, not loans; and they can be grouped into four main types.[5]

(a) The N.W.F.P. and Balochistan subventions: these at present provide Rs. 200 million and Rs. 100 million respectively (see Appendix 5-2). They are allocated on the recommendation of the NFC, but are processed as block grants from the Ministry of Finance to both provinces.

(b) Revenue-deficit grants: until the 1990/91 fiscal year these were grants from the federal government to cover the current account deficits incurred by the provincial governments. These were not required by the constitution or any other regulations, and were provided totally at the discretion of the federal government as grants by way of the Ministry of Finance. In 1991 these grants were discontinued on the recommendation of the NFC.

(c) Grants for maintaining strategic roads: these are only for the N.W.F.P. and Balochistan.

(d) Miscellaneous.[6]

Development grants and loans

These are grants and loans that also for the most part come from the Ministry of Finance. They are used basically to help finance the Annual Development Programmes (ADP) undertaken by each of the provinces. The details of these finances for recent years are presented in Table 5-2. These can be grouped into the following three categories.

(a) Development grants and loans: these provide the funds that support the ADP carried out by the provinces. From past results it seems that these are in some degree allotted to the four provinces in proportion to population (see Table 5-2); however it is not at all clear what criteria are used.

(b) Special development programmes: these are of two types, one being special development grants which supplement funds for ADP for underdeveloped regions like Balochistan. Projects of this type receive 70 per cent of their financing from foreign assistance and the remaining 30 per cent from the federal

TABLE 5-2
COMPOSITION OF DEVELOPMENT FINANCING, 1970/71–1988/89

(Rs. 10 million)

	1970/71–1972/73 Average	1976/77	1977/79	1978/79	1979/80	1980/81	1981/82
1. Current revenue surplus	19.14	–96.72	–45.91	3.16	0.37	232.85	2.90
2. Development grants	6.60	n.a.	n.a.	n.a.	131.25	260.69	149.26
a. Foreign grants	–0.94				12.79	22.16	14.74
b. Federal grants	7.54				118.46	238.53	134.52
3. Development loans[a]	81.72[b]	369.34	280.72	281.75	287.27	116.02	378.08
Share for provinces (%)							
Punjab	35.7	52.3	51.2	55.3	52.0	12.6	47.3
Sindh	11.5	22.9	24.5	22.1	23.6	30.9	25.5
N.W.F.P.	14.5	16.2	15.4	14.2	15.4	30.5	17.5
Balochistan	38.2	8.7	8.9	8.5	9.0	26.0	9.6
4. Cash account	–19.33	43.54	39.06	14.14	–20.37	–4.03	81.33
Total	88.13	n.a.	n.a.	n.a.	398.52	605.53	611.57

	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
1. Current revenue surplus	–139.23	–187.59	–182.21	–231.42	–290.05	303.83	295.03
2. Development grants	101.70	63.72	72.11	205.71	230.48	1,077.67	908.13
a. Foreign grants	12.19	9.57	11.56	10.39	12.42	12.67	17.96
b. Federal grants	89.51	54.15	60.55	195.32	218.06	1,065.00	890.17
3. Development loans[a]	549.65	616.82	719.60	840.94	1,096.36	585.68	546.48
Share for provinces (%)							
Punjab	57.0	57.1	52.3	51.3	49.4	50.7	51.3
Sindh	14.8	17.4	21.1	21.1	23.1	23.5	19.3
N.W.F.P.	18.8	14.1	17.1	16.8	17.7	16.6	11.8
Balochistan	9.4	11.4	9.5	10.8	9.9	9.3	11.6
4. Cash account	176.54	31.51	10.88	62.60	338.98	81.37	–49.93
Total	688.66	524.46	620.38	877.83	1,375.77	2,048.55	1,699.71

Sources: Hasan Ali Syed, *An Economic Analysis of the Annual Budgets: 1970–71 West Pakistan Provinces.* (Lahore: The Board of Economic Inquiry, 1971); idem, *An Economic Analysis of the Annual Budgets of the Punjab, Sind, North-West Frontier and Baluchistan Provinces*, 1971–72 and 1972–73 editions (Lahore, The Board of Economic Inquiry); Government of Pakistan, Federal Bureau of Statistics, Statistics Division, *Pakistan Statistical Yearbook,* various editions.

[a] Federal loans including foreign aid.

[b] Including all of the federal loans to the provinces but excluding foreign aid.

government.[7] The other category refers to highly politicized discretionary funds which go to projects recommended by members of the National Assembly or of provincial assemblies, funds which in effect become "pocket money" for the assembly members. In some of the provinces these funds become part of the ADP.[8]

(c) Foreign assistance transferred to the provinces: this is an important category of funding for Pakistan because the country is highly dependent on foreign assistance; however the system through which this assistance is transferred is not very clear. This assistance is of two types, one which uses reserves of counterpart funds coming out of grants for food stuffs and others, and the other being foreign exchange loans. In the latter case, the federal government's relending conditions to the provinces are in proportion to the conditions set between the foreign-aid donors and the federal government.[9]

A point to keep in mind about the above types of transfers and one which will be examined further in this chapter is that they are at the discretion of the federal government and that they follow no clear criteria for allocating funds to the provinces. This is especially true for the above (b), (c), and (d) of Financial Grants from the Ministry of Finance and (a), (b), and (c) of Development Grants and Loans.

The Size of Transfers and the Pattern of Distribution to the Provinces

Two points to be examined in this section are the extent that provincial finances are dependent on budgetary transfers from the federal government, and the ratio of allocations among the provinces. In order to examine these two points, the time period since 1971 has been divided into earlier and later periods separated by the year 1975 (the year when the NFC made its recommendations). Within this time frame the portion of budgetary transfers used for provincial current revenues and development financing, and the ratio of allocations among the provinces are examined. To calculate the figures for the years preceding the 1975 NFC recommendations, the average for the three years from 1970/71–1972/73 has been used.

Budgetary Transfers for Provincial Current Revenues

Table 5-3 gives the composition of provincial current revenues since 1970/71. Using as our base value the average scale of finances for the three years following the dissolution of West Pakistan Province, and comparing the average of these three years with the scale of current revenues for the year 1988/89, without taking account of inflationary factor, the latter was 28 times larger than the former. The absolute amount of provincial tax and non-tax revenues (not shown in the table) was respectively 6.9 and 8.6 times larger; however allocations from federal taxes and excises and federal grants were respectively 19.3 and 668.6 times larger. Clearly the increase in provincial current revenues was due to the budgetary transfers that came from the federal government.

The portion of current revenues coming from provincial taxes and non-tax revenues fell from 52.4 per cent to 14.2 per cent while the portion coming from federal tax allocations and revenue-deficit grants rose to 70 per cent. The rise in revenue-deficit grants was especially rapid, and after 1985/86 these exceeded the amount allocated from federal taxes and excises.

TABLE 5-3
COMPOSITION OF CURRENT REVENUES, 1970/71–1988/89

(Rs. 10 million)

	1970/71–1972/73 Average	1976/77	1977/79	1978/79	1979/80	1980/81	1981/82
Current expenditures		768.81	893.90	1,009.67	1,192.09	1,381.34	1,062.33
Current revenues	203.28	672.09	854.48	1,012.83	1,192.46	1,614.19	1,665.22
Share in current revenues (%)	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1. Provincial taxes revenues	29.8	20.1	17.1	15.9	15.2	15.3	14.0
2. Provincial non-taxes revenues	22.6	18.5	15.4	14.6	11.8	10.2	12.1
3. Provincial share of federal taxes and excises	43.2	42.4	38.0	38.3	46.7	48.3	51.6
4. Federal grants (revenue-deficit grants)	1.6	19.0	28.9	31.2	14.3	9.1	12.4

	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
Current expenditures	1,980.32	2,412.36	2,847.37	3,730.50	4,525.66	5,200.89	5,361.15
Current revenues	1,842.71	2,224.77	2,665.16	3,472.08	4,235.61	5,599.38	5,686.18
Share in current revenues (%)	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1. Provincial taxes revenues	13.9	13.5	12.7	9.9	8.5	6.9	7.3
2. Provincial non-taxes revenues	12.4	11.4	10.6	9.5	10.0	7.6	6.9
3. Provincial share of federal taxes and excises	50.7	46.2	40.7	35.3	29.1	27.3	29.8
4. Federal grants (revenue-deficit grants)	16.1	25.0	32.3	38.7	46.4	38.3	39.3

Source: The same as Table 5-2.

Looking at these transfers by province (Table 5-4), it can be seen from the average for the years 1970/71–1972/73 that N.W.F.P. and Balochistan were both dependent to a high degree on transfers from the federal government, and even Punjab relied on federal tax transfers for over 40 per cent of its current revenues in this period. If compared with Indian states, such a high degree of dependency on the federal government would group these provinces with the "special category states" on India's frontier.[10]

It can be seen from Table 5-4 that the overall rate of dependence on federal tax allocations has been falling. For N.W.F.P. and Balochistan in particular this has fallen to between 15 per cent and 20 per cent of their current revenues, while for Punjab the rate has remained high. This difference, as pointed out earlier, is because Pakistan's system of allocating federal taxes and excises is

TABLE 5-4
COMPOSITION OF PROVINCIAL CURRENT REVENUES, 1970/71–1988/89

(%)

	Provincial Share of Federal Taxes and Excises	Provincial Tax Revenues	Provincial Non-Tax Revenues	Revenue-Deficit Grants	Development Grants		
					Total	Foreign-Aid Grants	Federal Development Grants
Punjab							
1970/73[a]	42.8	30.5	22.9	0.3[b]			
1979/80	55.2	17.0	14.7	2.6	10.2	0.8	9.5
1980/81	54.6	16.8	11.8	1.3	15.4	0.8	14.7
1981/82	59.8	15.9	14.3	2.9	7.1	0.6	6.5
1982/83	61.0	16.1	15.5	3.8	3.7	0.5	3.2
1983/84	53.2	15.8	14.4	15.8	0.7	0.4	0.3
1984/85	46.5	14.6	13.7	24.3	0.9	0.3	0.6
1985/86	38.3	11.4	12.3	31.7	6.2	0.2	6.0
1986/87	32.9	10.9	12.4	39.8	4.0	0.2	3.7
1987/88	30.5	8.6	10.0	31.7	19.2	0.2	19.1
1988/89	35.4	9.8	8.9	31.6	14.2	0.3	13.9
Sindh							
1970/73[a]	38.8	36.0	21.8	0.4[b]			
1979/80	44.3	22.2	9.9	10.8	10.4	0.8	9.6
1980/81	48.9	21.5	9.3	0.3	16.3	2.4	13.9
1981/82	53.4	20.6	12.3	1.3	9.4	0.9	8.6
1982/83	50.7	19.8	12.3	5.3	7.0	0.8	6.2
1983/84	47.1	18.0	9.9	16.6	5.2	0.4	4.8
1984/85	44.2	14.6	8.9	25.1	4.7	0.4	4.4
1985/86	38.1	11.8	7.5	31.9	8.7	0.3	8.4
1986/87	30.9	9.1	11.5	40.3	6.8	0.2	6.6
1987/88	30.2	8.0	6.1	35.3	18.8	0.2	18.6
1988/89	29.8	7.4	6.6	34.2	20.0	0.2	19.9
North-West Frontier Province							
1970/73[a]	51.3	18.5	23.5	6.8[b]			
1979/80	39.5	6.7	10.5	31.1	11.5	1.0	10.5
1980/81	41.0	7.0	9.5	22.2	19.4	1.4	18.0
1981/82	40.4	6.2	9.1	32.5	10.9	0.5	10.3
1982/83	39.9	6.9	9.1	39.8	3.3	0.4	2.9
1983/84	36.6	7.2	8.8	45.2	0.8	0.4	0.5
1984/85	32.0	6.6	7.6	52.2	0.3	0.3	0.0
1985/86	29.3	5.9	6.5	56.9	0.2	0.2	0.0
1986/87	22.5	4.4	4.8	62.2	5.2	0.2	5.1
1987/88	20.8	3.5	5.0	52.1	17.1	0.1	17.0
1988/89	22.5	3.8	4.5	56.2	12.1	0.3	11.8
Balochistan							
1970/73[a]	53.7	13.9	18.8	13.6[b]			
1979/80	19.0	1.7	6.6	59.0	16.1	3.5	12.6
1980/81	21.2	2.1	4.7	56.9	14.2	2.2	12.0
1981/82	21.6	1.6	4.2	57.0	14.8	3.4	11.5
1982/83	18.7	1.3	2.9	61.9	14.6	1.6	13.1
1983/84	24.4	1.8	4.3	57.5	11.2	0.7	10.5
1984/85	22.4	2.5	3.9	57.7	11.4	1.4	10.0
1985/86	20.7	2.4	3.6	65.8	6.9	0.8	6.1
1986/87	15.9	1.8	3.2	68.3	10.3	1.1	9.2
1987/88	14.9	1.4	3.2	55.7	24.3	0.9	23.4
1988/89	15.4	1.4	2.7	59.3	20.8	0.9	19.9

Source: The same as Table 5-2.
[a] Average for 1970/71–1972/73.
[b] Includes all grants from federal government.

based solely on the ratio of population. There has not been a policy to correct the disparities among the provinces. In place of such a policy the federal government had relied until 1990/91 on revenue-deficit grants. Originally these grants were intended for N.W.F.P. and Balochistan, but from the latter half of the 1980s Punjab and Sindh also became to a high degree dependent on these grants. There is some difference in the structure of current revenues between the first two provinces and the second two. North-West Frontier Province and Balochistan bring in less than 10 per cent of their own revenues. Punjab and Sindh in recent years have seen dramatic falls in their self-procured revenues, and they currently generate between 14 and 20 per cent of their own current revenues. All these figures point to a very high rate of provincial dependence on the federal government which leads one to wonder about the significance of provinces in Pakistan and the meaning of their existence.

Turning next to the federal tax allocations to the provinces, it has already been mentioned several times that these are based on the ratio of population. Here we will take up the revenue-deficit grants along with foreign assistance. Development grants which for accounting purposes fall under current revenues will be taken up in the next section. Between 1970/71 and 1972/73 the amount allocated as revenue-deficit grants still remained low, and as can be seen from Table 5-4, these grants were limited to N.W.F.P. and Balochistan. Table 5-5 shows the period after 1976/77, and as can be seen from this table, these two provinces continued to be the principal recipients of these grants up to 1982/83. Thereafter the percentage of these grants going to Punjab and Sindh began to increase. Foreign aid in grant reaches the provinces as grants provided by the federal government. Punjab is the largest recipient of these funds. The percentage going to Balochistan is also very high, the reason for this being that the government is attempting to carry on an active development programme using foreign assistance to maintain law and order within the province.

From the above it can be seen that by 1990/91 revenue-deficit grants had come to be more important than the federal tax allocations for maintaining provincial current revenues. Moreover the role of these grants had expanded from federal government support for the finances of N.W.F.P. and Balochistan to support for all four provinces. These grants have now been done away with, nevertheless, even today there are still no policy criteria set down for budgetary allocations. For this reason provincial finances are in effect subject to the discretionary powers of the federal government, particularly those of the Ministry of Finance. Without a reexamination of the redistribution of tax revenues and the ratio of allocations to the provinces, the percentage of revenues that Balochistan itself will be able to generate will continue approaching zero.

Budget Transfers for Development Financing

In this section we will look at the composition of development financing and the extent of dependence on the federal government. Development financing

TABLE 5-5
RATIO BY PROVINCES OF CENTRAL GRANTS

(%)

	1976/77*	1977/78*	1978/79*	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
Revenue-deficit grants													
Punjab	22.4	33.8	33.9	9.3	7.6	11.8	11.6	31.4	37.6	42.5	43.1	42.0	38.3
Sindh	6.7	15.5	19.0	18.2	0.8	2.4	7.8	16.0	18.5	19.6	20.5	21.0	21.9
N.W.F.P.	33.8	25.5	24.5	34.0	37.7	44.0	41.2	30.0	27.0	23.0	22.5	23.2	24.7
Balochistan	37.2	25.2	22.7	38.5	54.0	41.7	39.4	22.6	16.9	14.9	13.9	13.8	15.1
Foreign-aid grants													
Punjab				36.7	29.7	33.1	38.0	47.0	38.9	43.3	36.2	35.5	43.4
Sindh				18.0	40.7	22.2	27.5	23.5	19.5	21.7	18.1	17.9	12.5
N.W.F.P.				14.6	15.5	10.3	10.3	13.1	10.8	12.0	9.3	9.1	16.8
Balochistan				30.6	14.0	34.3	24.3	16.4	30.8	23.0	36.4	37.5	27.3
Development grants													
Punjab				48.5	52.5	41.6	32.0	6.9	12.6	55.0	36.5	50.9	42.5
Sindh				23.2	21.6	24.7	30.5	47.5	45.9	35.4	30.9	23.3	31.9
N.W.F.P.				16.5	18.9	21.5	9.8	3.1	—	—	16.6	15.2	12.9
Balochistan				11.8	7.0	12.9	27.6	42.5	41.5	9.5	16.8	11.6	12.7

Sources: Government of Pakistan, Federal Bureau of Statistics, Statistics Division, *Pakistan Statistical Yearbook,* various editions.

* Inclusive of foreign-aid grants and development grants.

determines the course for the Annual Development Programmes (ADP) as well as the scale of development planning that the provinces can pursue. If a province has a surplus in its current account, a portion equal to this surplus is subtracted from the development grant provided by the federal government. In India the amount of federal financial support for development programmes is generally set at a ratio of 70 per cent in loans and 30 per cent in grants (see Chapter 3). In Pakistan there is no such method or policy. However if we look at Table 5-2 it can be seen that before 1987/88 loans accounted for an overwhelming share of development financing.

For 1970/71–1972/73 by far the largest part of development financing came in the form of loans from the federal government. After 1976/77 loans were still the major form of financing while development grants accounted for only a very small part. This remained the case until 1987/88. From that year development grants annually exceeded loans. This change came about with the introduction of Prime Minister Junejo's Five Point Programme for social development which greatly increased the grants provided to the provincial governments.[11]

The ratio for allocating development financing to the provinces does not seem to be systematic. From the simple statistics provided in the *Pakistan Statistical Yearbook*, the figures for the ratio of loans to the provinces (shown in the lower half of Table 5-2), are close to the ratio of population. The figure for 1980/81 is an exception, otherwise the movement in the values is quite narrow. In Table 5-5 the value of development grants is also close to the ratio of population, but the movement is wide and for many of the years there is a wide disassociation with population ratio. Nevertheless, the overall impression when the few small exceptions are excluded is that development financing through both grants and loans is being carried out implicitly on the basis of population. Taken as a ratio of population one could argue that Punjab's portion is rather small; in total amount however, it is getting the lion's share of development funds.

Comparison of Provincial Expenditures

In this section we will examine the level and the composition of expenditures which each province is able to maintain because of budgetary transfers from the federal government. The study on India in Chapter 3 showed that there is quite a dispersion in the composition of state expenditures which means that this has an effect on the way budgetary funds are transferred from the federal government. In other words, the level of state expenditures (per capita) has a strong positive correlation with the level of state income, and as shown in the composition of expenditures, the policies of state governments have a strong effect on the rate of social expenditures and on the rate of investment into such infrastructure as irrigation and electric power. This sort of policy planning by

TABLE 5-6
COMPOSITION OF CURRENT EXPENDITURES

(%)

	Non-Development Expenditures								Devel-opment Expendi-tures	Current Balances as % of Current Ex-penditures
	General Adminis-tration	Law and Order	Local Services	Social Services	Eco-nomic Services	Food Sub-sidies	Interest Pay-ments	Sub-total		
Total for the four provinces:										
(1)	7.8	7.8	5.4	15.8	6.5	18.6	11.8	88.2	11.8	1.9
(2)	8.0	8.1	5.8	14.3	5.4	19.7	10.4	89.2	10.8	−6.7
(3)	8.0	7.9	5.5	12.1	5.7	20.9	10.3	90.0	10.0	2.6
Punjab:										
(1)	8.1	7.3	4.3	18.4	3.5	16.9	13.5	86.5	13.5	−10.4
(2)	7.6	7.7	4.7	16.0	4.2	18.7	11.9	88.1	11.9	−9.0
(3)	7.8	7.6	4.3	12.8	4.4	20.1	12.9	87.5	12.5	−2.3
Sindh:										
(1)	7.7	8.4	5.1	15.0	6.7	20.4	9.2	90.8	9.2	4.5
(2)	9.4	8.9	5.5	14.2	5.3	20.6	7.4	92.6	7.4	0.4
(3)	8.8	8.9	5.1	12.4	6.0	22.1	6.8	93.7	6.3	8.7
North-West Frontier Province:										
(1)	7.1	7.7	5.9	9.9	12.7	20.7	12.9	87.2	12.8	−3.4
(2)	6.2	7.5	6.4	9.6	8.3	21.4	13.8	86.2	13.8	−14.6
(3)	6.9	6.8	6.1	9.4	9.0	21.9	10.4	89.6	10.4	0.9
Balochistan:										
(1)	8.0	8.8	12.1	14.3	11.7	19.3	7.0	93.0	7.0	10.6
(2)	9.9	10.1	12.4	13.6	7.6	19.8	5.9	94.1	5.9	5.5
(3)	9.4	9.5	12.7	12.0	6.7	20.2	3.9	96.1	3.9	20.4

Source: The same as Table 5-5.
Note: (1) = 1980/81–1982/83 average; (2) = 1983/84–1985/86 average; (3) = 1986/87–1988/89 average.

state governments has brought about the expansion of state finances, and this in turn has caused clashes with the financial controls of the federal government. This situation has made federal and state governments in India conscious of the problems affecting federal and state finances. This point is another issue which needs to be examined in this study because one can ask if the same can be read into the data for Pakistan.

Tables 5-6 and 5-7 show the composition of expenditures for each province using statistics only for the financial years which have comparable figures. Current and capital expenditures for each of the three financial periods from 1980/81 through 1988/89 are set forth and their averages determined.

From the figures in the two tables, one can see very little overall difference in the composition of expenditures for each of the provinces. When compared with the composition of state expenditures in India which was presented in Chapter 3, that for the expenditures of provinces in Pakistan is exceedingly uniform.

TABLE 5-7
COMPOSITION OF CAPITAL EXPENDITURES

	Development Expenditures						Non-Development Expenditures		
	Irrigation	Health	Agriculture	Communication	Public Works	Subtotal	Provincial Trade	Repayment for Federal Loans	Subtotal
Total for the four provinces:									
(1)	3.0	0.6	0.9	6.3	7.4	22.1	5.1	67.0	77.9
(2)	4.8	1.2	0.9	10.5	12.5	35.5	6.4	55.1	64.5
(3)	4.6	1.9	0.9	11.6	18.1	42.5	5.0	38.6	57.6
Punjab:									
(1)	3.4	0	1.3	7.8	9.4	25.9	8.8	57.4	74.1
(2)	4.0	0	0.7	11.4	14.7	34.0	8.4	48.1	66.0
(3)	3.6	0	0.4	13.4	18.6	38.7	1.9	41.7	61.3
Sindh:									
(1)	4.0	1.7	0.3	6.2	4.6	21.4	6.3	65.9	78.6
(2)	6.4	3.0	0.6	9.6	11.2	38.0	−15.9	70.6	62.0
(3)	5.6	5.1	0.7	10.9	17.3	43.4	10.9	26.9	56.6
North-West Frontier Province:									
(1)	1.3	0	0.4	6.4	13.2	23.2	−2.2	72.7	76.8
(2)	2.5	0	0.1	8.4	8.6	26.3	−4.1	59.4	73.7
(3)	3.5	0	0	9.4	23.9	42.0	−0.9	47.2	58.0
Balochistan:									
(1)	2.4	1.3	1.2	2.3	1.6	13.0	0	86.9	87.0
(2)[a]	9.1	4.8	4.0	11.7	6.4	53.1	0	46.1	46.7
(3)[a]	7.6	4.7	4.3	8.5	10.9	56.3	0	42.8	43.7

Source: The same as Table 5-5.
Notes: For (1)–(3), see note to Table 5-6.
[a] Other development expenditures are given much weight in this period.

For all of the provinces, fixed outlays for food subsidies and interest payments falling under current expenditures and for repayments of federal loans on capital expenditures make up a very high portion of provincial expenditures. Food subsidies and interest payments regularly take up 30 per cent of current expenditures, and repayments on federal loans, although having fallen somewhat, still account for 40 per cent of capital expenditures. As already seen, the heavy dependence of provincial finances on federal loans is vindicated here by high incidence of obligatory expenditures used for debt service payments.

If the above major expenditures are removed from our comparison, then the largest item in current expenditures is social services. The major items under this category, when food subsidies are excluded, are only education and medical expenditures. Other than the somewhat low figure for N.W.F.P., there is no great movement in the numbers. The next major and uniformly high expen-

TABLE 5-8
PER CAPITA PROVINCIAL EXPENDITURES

(Rs.)

	Current Expenditures Subtotal	Social Services	Food Subsidies	Interest Payments	Captital Expenditures Subtotal	Development Expenditures	Irrigation[a]	Communications	Public works	Repayments for Federal Loans
Total for the four provinces:										
(1)	198.8	51.4	12.9	36.9	221.5	48.9	9.4	13.9	16.5	148.5
(2)	354.6	98.6	19.3	69.8	200.1	71.0	13.4	20.9	25.0	110.2
(3)	596.9	177.9	34.2	124.6	278.6	118.4	17.7	32.3	50.4	107.4
Punjab:										
(1)	182.4	49.8	6.3	30.8	171.6	44.2	8.0	13.4	16.2	98.6
(2)	328.4	95.5	13.7	61.3	172.8	58.8	9.7	19.6	25.5	83.1
(3)	552.0	168.3	24.0	111.0	236.0	91.4	11.7	31.5	43.8	98.3
Sindh:										
(1)	198.7	54.4	13.3	40.6	240.9	51.5	17.0	14.9	11.1	158.8
(2)	347.3	98.1	18.5	71.6	201.6	76.5	22.6	19.4	22.4	141.9
(3)	594.0	177.9	35.9	131.4	337.4	146.6	33.5	36.6	58.3	90.7
North-West Frontier Province:										
(1)	261.3	60.6	33.1	54.2	247.0	57.4	3.7	15.9	32.7	179.5
(2)	478.1	128.2	39.8	102.2	283.9	74.0	8.3	23.9	24.3	168.6
(3)	790.4	232.9	71.2	173.1	298.2	125.3	12.1	28.2	71.4	141.5
Balochistan:										
(1)	334.1	61.9	38.9	64.6	746.7	96.8	21.1	17.2	11.6	648.7
(2)	565.3	117.3	42.8	111.8	396.7	210.8	42.7	46.4	25.2	182.8
(3)	955.5	246.3	63.6	193.0	598.9	337.4	53.6	50.7	65.1	256.4

Source: The same as Table 5-5.
Notes: For (1)–(3), see note to Table 5-6.
[a] Per capita rural population.

diture for all four provinces is the cost for maintaining law and order (the police). Other quite high expenditures are economic services (mainly agriculture) in N.W.F.P. and Balochistan, and local services (road maintenance and public works) in Balochistan.

The major part of development expenditures, which come under capital expenditures, go to communications (roads and bridges) and other public works. Expenditures on irrigation in Sindh and Balochistan, and on agriculture in Balochistan are also comparatively high. The share for development expenditures and for allocations for irrigation, health, and agriculture are each very small, however these expenditures have been rising. Capital investment carried on by the provinces is limited solely to public works infrastructure building; this point can be under stood from Table 5-7.

The finances of all four provinces are restricted by high fixed outlays, and their great dependency on the federal government put severe limits on provincial motivation and initiative. However, if we look at provincial expenditures per capita, we get a different picture. This can be seen in Table 5-8 which shows the major expenditure items per capita. Punjab is low in all of the categories while N.W.F.P. and Balochistan are high. In other words, by the ratio of population, the amount of budgetary transfers going to Punjab from the federal government are somewhat less than the average, and this small difference has been transferred over to N.W.F.P. and Balochistan, which together account for 19 per cent of the country's total population, thereby guaranteeing that their transfers per capita remain above the national average. Thus there is a negative correlation between provincial per capita expenditures and the level of provincial income. This situation is the opposite of that seen in the relationship among the major states in India (excluding the "special category states"). But the far from easy environment and living conditions in N.W.F.P. and Balochistan require far higher expenditures per capita in these two provinces than in Punjab and Sindh where living conditions are much easier. Within Pakistan's highly centralized financial structure, all four of the provinces fall at the level of India's "special category states" (most of which are on the frontier), but N.W.F.P. and Balochistan, being "a frontier within the frontier," must have their own standard for expenditures which compensate for their hard living conditions. Serious studies on the differences and disparities among the provinces of Pakistan have only just begun, and henceforth we can expect a good deal of discussion on the use of budgetary transfers from the federal government as a means for correcting these differences.[12]

Conclusion: Characteristics of Pakistan's Budgetary Transfers

From the above study of Pakistan's budgetary transfer system, five particular characteristics of this system can be pointed out.

The first is the overwhelming dominance of federal finances. The reasons for this are: (1) the preemptive nature of federal expenditures, i.e., the large sums needed to cover expenditures for defense and for interest and repayment obligations on foreign assistance,[13] (2) the assumption of control over major development activities by the federal government and the public enterprises under its control rather than by the provincial governments, and (3) the weak economic base of the provinces which hinders their ability to raise their own tax revenues.

The second characteristic is that the provinces are extremely weak at generating their own tax revenues. North-West Frontier Province and Balochistan raise less than 10 per cent of their revenues on their own, while Punjab and Sindh in recent years have experienced dramatic falls in the shares represented by the revenues they procure on their own, and currently they provide between 14 and 20 per cent of their own revenues. This dependence of Pakistan's provinces on the federal government cannot help but make one to wonder about the significance of these provinces and the meaning of federalism in Pakistan.

The third characteristic is that federal tax allocations, plus the revenue-deficit grants until 1990/91, have maintained provincial finances (current revenues). The allocation of federal taxes and excises has gradually declined as a percentage of provincial finances, while the role of revenue-deficit grants which originally were given to N.W.F.P. and Balochistan to support their finances was extended to all four provinces. Nevertheless there was no policy criteria set down for the allocation of revenue-deficit grants. For this reason provincial finances are in effect subject to the discretionary powers of the federal government, particularly those of the Ministry of Finance. Without a reexamination of the redistribution of tax revenues and the ratio of allocations to the provinces, the percentage of revenues that a province like Balochistan will be able to generate for itself will continue approaching zero.

The fourth characteristic is that development financing by and large is allocated to the provinces on the basis of population. Within development financing there are the Special Development Programmes (Projects) directed at N.W.F.P. and Balochistan; there is also the systematic delivery of highly politicized project funds which comes via members of the National Assembly or provincial assemblies and which are bound up in bribery and corruption. Foreign assistance provides a large portion of development funding, and this can be thought of as appeasement money passed from the federal government to the provinces. Moreover the singularly large amount of this foreign assistance that is going to Balochistan seems to carry a highly political undertone.

The fifth and last characteristic is that an examination of the overall amount of budgetary transfers from the federal government to the provinces for their expenditures shows that the ratio of allocations corresponds for the most part to the ratio of population and no thought has been applied to correcting the disparities among the provinces. At one time the revenue-deficit grants were special measures meant to help N.W.F.P. and Balochistan; by 1990/91 the effect of these measures had been diluted.

In overall terms Punjab receives the largest share of budgetary transfers. But in terms of expenditures per capita of provincial population, Punjab is at the bottom. The portion not going to Punjab is going to N.W.F.P. and Balochistan, but whether this extra is satisfying the administrative demands of these two provinces is a question to be asked. Another point which has already been mentioned is the very great role in Pakistan played by the public enterprises which come under the control of the federal government. If the locations of these public enterprises is taken into consideration, it would appear that the level of public expenditures in the broad sense in Punjab do to some extent increase. Whatever the case, when compared in purely financial terms, the level of expenditures per capita for Punjab is definitely low, and this fact makes it all the more difficult for the ratio of allocations among the provinces to be made further retrogressive to income level.

In the final analysis, Pakistan's central budgetary transfer system was not intended for strengthening provincial autonomy; rather the nature of the system is strongly one of a preemptive move by the central government to counter the political crisis caused by the secession of Bangladesh in 1971. This makes the system very different from that in India.

Notes

1 The two standard studies on provincial finances in Pakistan are: Mohammad Khairat Choudhary, "Some Aspects of Fiscal Federalism in Pakistan," *Kashmir Economic Review*, Vol.2, No.2 (July–December 1985), pp.21–40; H.A. Pasha and A. Ghaus, *Analysis of Provincial Finances in Pakistan* (Karachi: Applied Economic Research Centre, 1986).

The following materials have also been used for the analysis in this study. Each province regularly publishes a document entitled *White Paper on the Budget*. These publications explain their budgets. The white papers used in this study were: Punjab, 1981/82 and 1983/84 fiscal years (In this study the dates of the fiscal years are indicated using a slash; in Pakistan however the usual way of writing these dates is using a hyphen, i.e., 1983–84.); Sindh, 1983/84 financial year; North-West Frontier Province, 1986/87 (also used for this province was *Economic Analysis of the Budget,* 1970/71 to 1979/80 editions); Balochistan, 1990/91 financial year. Federal government documents used were Government of Pakistan, Federal Bureau of Statistics, Statistics Division, *Pakistan Statistical Yearbook* as well as Government of Pakistan, Finance Division, *Explanatory Memorandum on the Budget* (*EMB*), both of which are published annually.

Other sources on the finances of the four provinces for the years 1970/71–1972/73 were: Hasan Ali Syed, *An Economic Analysis of the Annual Budgets: 1970–71 West Pakistan Provinces* (Lahore: The Board of Economic Inquiry, 1971); idem, *An Economic Analysis of the Annual Budgets of the Punjab, Sindh, North-West Frontier and Baluchistan Provinces* (Lahore, The Board of Economic Inquiry), 1971–72 and 1972–73 editions. All the figures in the tables except Table 5-1 and Appendix Table 5-1 are on actual accounts.

2 The following are under the budgetary control of the Ministry of States and Frontier Regions and Kashmir (figures are for the 1987/88 budget in Rs. million): the ministry's secretariat (12.123), local police (192.75), Frontier Constabulary (270.169), the administrative costs of the Federally Administered Tribal Areas [FATA] (814.413), the administrative costs of Kashmir and the Northern Areas (193.176), education costs of the Northern Areas (59.747), other costs (940.738), ways and means loan to Azad Jammu Kashmir (575.299), FATA development expenditures (577.459), Kashmir development expenditures (414.145). Source: *EMB*, 1988–89 edition.

3 See Chapter 3.

4 Hans de Kruijk, "Inequalities in the Four Provinces of Pakistan," *Pakistan Development Review,* Vol.25, No.4 (Winter 1986), pp.685–704; also S. Akbar Zaidi, "Regional Imbalances and National Question in Pakistan, Some Indications," *Economic and Political Weekly,* Vol.24, No.6 (February 11, 1989), pp.300–314.

5 Groupings are by the author based on *EMB,* 1988–89 edition. For grants allocated via the Ministry of Finance, see pp.36–38. The amount of deficit was determined by calculating the usual shortfall and the annual revenues for the given year (see *ibid.*, p.37).

6 This includes grants to the agency function for North-West Frontier Province, Peshawar National Park, funds for crisis management and emergencies (a reserve fund), and compensation money for victims of the Karachi bomb blast (see *EMB*, 1988–89 edition, p.37).

7 Government of Balochistan, Finance Department, *White Paper on the Budget, 1990–91*, p.55, where it states that for special development projects 70 per cent of the funding is from foreign assistance and 30 per cent is from federal assistance. These projects are handled separately from the Annual Development Programme. Special development projects outside of the Annual Development Programme were formulated for Balochistan in the 1983/84 and 1984/85 financial years. From 1987/88 these projects were formulated for the entire country; however over half of these projects are still allotted to Balochistan.

8 According the *EMB*, 1988–89 edition, p.127, these funds are given out to projects specified by members of the upper and lower houses of the National Assembly. Also see Emma Duncan, *Breaking the Curfew: A Political Journey through Pakistan* (London: Michael Joseph, 1989), p.247 which tells about the existence of these expenditures. According to the Punjab government's *White Paper on the Budget, 1983–84*, p.34, block grants are appropriated via local bodies as part of the Annual Development Programme. The Government of the North-West Frontier Province, *White Paper on the Budget, 1986–87*, p.39 states that federal grants are allocated for projects specified by members of the Provincial Assemblies. These are known as Special Federal Projects and are part of the Annual Development Programme.

9 *EMB*, 1988–89 edition, p.151 points out that relending conditions for foreign assistance to the provinces are the same as those applied to the federal government by foreign-aid agencies. In India assistance to state projects is pooled by the federal government, and 70 per cent of this is transferred to the states (see Chapter 4).

10 See Chapter 3.

11 *EMB*, 1988–89 edition, p.151 states that from 1987/88, following the introduction of the Prime Minister Junejo's Five Point Programme, development loans were cut back and replaced with development grants. Undertakings of this programme included *katchi abadi* (an urban slum), running water and sewrage for villages, seven Marla Schemes (a programme to supply housing to rural laborers), rural road construction, education, and health programmes.

12 In the 1991 recommendations of the NFC there is no discussion about a minimum level of social expenditures that would be applicable to the entire country. The article by Zaidi (see note 4) provides a basis for such discussion, for example Tables 13 and 14 which show the disparity in educational and medical facilities. In another work by Zaidi, *The Political Economy of Health Care in Pakistan* (Lahore: Vanguard, 1988), p.25, the author compares the absolute number of doctors in Punjab and Balochistan showing that there is a 17 : 1 ratio gap between the two in urban areas and a 14 : 1 gap in rural areas. de Kruijk's article (see note 4) took up the disparity of incomes among the provinces using statistics for household incomes and expenditures compiled by the government of Pakistan. His finding shows that in-

comes per household are not necessarily the highest in Punjab. Thus even on a point like this we are still having problems with the data that would be the starting point of the discussion.

13 The pressure on federal finances from military expenditures and debt servicing goes back into the history of public finances in South Asia, and was a phenomenon typically observable in colonial India (see Table 2-1 in Chapter 2).

Appendix 5-1: Development of the Federal Budgetary Transfers System in Paksitan

a. 1935, the Government of India Act, Articles 138, 140, 140A and 142;
   1937, the Niemeyer Award.
b. 1947, independence; provisions in no.1 remain in effect.
c. 1953, the Distribution of Revenue Order, 1953 (G.G.O. XXIII).
   (1) 50% of income taxes, excluding the Agricultural Income Tax. The ratio of allocations to the provinces: East Bengal 45, Punjab 27, Sindh 12, N.W.F.P. 8, Balochistan 4, and others 4.
   (2) 62% of the Jute Export Duty, allocation by the area of cultivation.
   (3) 60% of the Sales Tax; 50% to the levying province; for the Sales Tax levied in Karachi, the remaining 50% also allocated to provinces in the ratio of Punjab 54, Sindh 16, N.W.F.P. 10, Balochistan 4.
   (4) 50% of the Federal Excise Duty on cigarettes, areca nuts, tea; the same allocation ratio to the provinces as for income taxes.
   (5) Rs. 12.50 million subvention to N.W.F.P. Rs. 6.054 million subvention to Balochistan.
d. 1961 December, appointment of the Finance Commission.
   1962 June, Distribution of Revenues and Consolidation and Repayment of Loans Order (P.O. 23).
   (1) 50% of income taxes; East 54%, West 46%, including the Corporate Income Tax.
   (2) 60% of the Sales Tax; 30% to the levying province; allocation of the remaining 70%: East 54%, West 46%.
   (3) 60% of the Federal Excise Duty on the same three commodities; the ratio of East-West allocation the same as the Sales Tax.
   (4) 100% of the Jute Export Duty and Cotton Export Duty; the ratio of East-West allocation the same as (2) of No.3 above.
   (5) 100% of the Agricultural Estate Duty; allocated to the levying province.
   (6) 100% of the Tax on Non-removable Property Capital Value; allocated to the levying province.

   From July 1961, 50% of the provinces' debts to the federal government canceled; the remainder lent for 25 years at 3.5% interest. The provinces' foreign debts left unaffected.
e. 1970, National Finance Committee (NFC) appointed; in 1971 upon its recommendations the taxes designated for allocation changed; with the dissolution of West Pakistan Province, the ratio of allocations to the provinces revised.
   (1) 80% of income taxes; East 54%, West 46%, including the Corporate Income Tax.
   (2) 80% of the Sales Tax; 30% to the levying province; allocation of the remaining 70%: East 54%, West 46%.

(3) 80% of the Federal Excise Duty on the same three commodities; the ratio of East-West allocation unchanged.
(4) 80% of the Jute Export Duty and Cotton Export Duty; the ratio of East-West allocation the same as above.
(5) 100% of the Agricultural Estate Duty; allocated to the levying province.
(6) 100% of the Tax on Non-removable Property Capital Value; allocated to the levying province.

For the West however, in accordance with the award of the One Unit (Reorganisation) Committee, the ratio of allocations was: Punjab 56.5, Sindh 23.5, N.W.F.P. 15.5, and Balochistan 4.5.

f. 1973, the articles of the new Constitution and their application.
(1) Article 160 stipulating the National Finance Commission made up of the finance ministers of the federal government and the provinces; committee appointed in February 1974; in June 1975 the Distribution of Revenue and Grants-in-Aid Order (P.O. 2).
(2) Article 161 stipulating the Excise Duty on natural gas, the Royalty from the same and their transfer to the provinces.
(3) Allocation of 80% of the income taxes including the Corporate Income Tax, Sales Tax, Cotton Export Duty; the ratio of allocation: Punjab 60.25, Sindh 22.50, North-West Frontier Province 13.39, and Balochistan 3.86; these allocations in accordance with the 1972 census.
(4) Subventions of Rs. 100 million to N.W.F.P. and Rs. 50 million to Balochistan as obligatory expenditures by the federal treasury (increased from 12.5 million and 6.054 million respectively).
(5) Abolition of the stipulations of 1953, 1962, 1971.

g. 1979, appointment of a new NFC (P.O. 2).
It is not clear if the committee issued recommendations, nor is it clear what the content of its recommendations are; however from this time the Gift Tax and the Agricultural Income Tax stated to be allocated to the provinces. 70–80% per cent of the allocations of the Excise Duty on natural gas and the Royalty from the same goes to Balochistan; the allocation criteria for this is also not clear.

h. From the 1984/85 fiscal year, the ratio of population from the 1981 census applied to allocations; Punjab 57.97, Sindh 23.34, N.W.F.P. 13.39, and Balochistan 5.30.

i. From the 1986/87 fiscal year, allocation of the Cotton Export Duty on cotton and the Gift Tax abolished.

j. From the 1988/89 fiscal year, allocation of the Cotton Export Duty restored. As of the 1989/90 fiscal year, the five revenue items subject to allocations are: the Cotton Export Duty, Income Taxes, the Sales Tax, the Excise Duty on natural gas, and the Royalty from the same.

k. 1991 April, new recommendations by the NFC (see Appendix 5-2).

(Sources: For a and b, Chapter 2; for c, Government of Punjab, *Statutes of Pakistan and Punjab, 1953* (Lahore), pp.448–52; for d, Government of Pakistan, *Constitutional Documents (Pakistan),* Vol.5 (Karachi), pp.298–301; for e, Hasan Ali Syed, *An Economic Analysis of the Annual Budgets: 1970–71 West Pakistan Provinces* (Lahore: The Board of Economic Inquiry, 1971), p.12; for f, Government of Pakistan, *President's Orders and Regulations 1971–78* (Karachi), pp.155–56; and for g–j, idem, *Explanatory Memorandum on the Budget,* various editions.)

Appendix 5-2: The 1991 Recommendations of the National Finance Commission

In April 1991, for the first time in sixteen years, the newly appointed NFC issued new recommendations concerning the financial relationship between the federal government and the provinces. These new recommendations were more wide-ranging than the previous ones. The substance of these latest recommendations are set out below. Following this we will briefly examine what changes these recommendations could bring to the budgetary transfer system that we looked at in the main body of this study.

The major points of the new recommendations:

I. Expansion of Tax Allocations to the Provinces: Along with the three existing taxes, the addition of the excise duties on cigarettes and on cigarette manufacturers, and the excise duty on sugar; the allocation ratio of 20% to the federal government and 80% to the provinces remains the same; the new allocations: Punjab 57.88%, Sindh 23.28%, N.W.F.P. 13.54%, and Balochistan unchanged (5.30%); this ratio to remain set until the next census.

II. Refunding the Benefits of Resource Development: In addition to the existing excise duty on natural gas and the royalty from the same, the transfer of the surcharge on natural gas to the producing provinces, and the refunding of the net profits on hydroelectric power and the royalty on petroleum to the producing provinces.

III. Subventions to the Provinces: Rs. 200 million to N.W.F.P. (an increase, but for three years only), Rs. 100 million to Balochistan (an increase, but for three years only), Rs. 700 million to Sindh (newly provided, but for five years only), Rs. 1 billion to Punjab (newly provided, but for five years only).

IV. Financial Support from the Federal Government: (a) Ways and means advances to cover temporary imbalances, and allowing market borrowing by the provinces; (b) Provincial current surpluses can be used outside of the framework for federal development grants; (c) Abolition of the use of revenue-deficit grants; the province to take responsibility for current expenditures and loan repayments; (d) Continuation of grants to North-West Frontier Province and Balochistan for the maintenance of strategic roads; (e) Special programmes designated by the president or the prime minister will be borne by the federal government; (f) Special grants to be provided for unforeseen disasters.

V. Transfer of the Sales Tax to the Provinces: As part of ongoing reform, immediate steps to be taken to levy the sales tax on consumers at the provincial level.

VI. Other Points: (a) Greater efforts to reduce federal and provincial non-development expenditures and to make more economic use of finances; (b) Greater efficiency within the tax collection process, and the establishment of reform committees at the provincial level for this purpose; (c) Examination of the federal government's present administration to see what parts could be taken over by the provinces. (d) Priority to be put on the excise duty rather than the development surcharge levied on the exploitation of natural gas.

These recommendations were carried out from the 1991/92 fiscal year (see Appendix Table 5-1). Looking at these recommendations in light of the analysis in this study, it is clear that they have taken into consideration a number of the problems in the financial relationship between the federal government and the provinces. But the question is how the federal government will deal with these problems. In parts I through III above there has been substantial improvement in the amount of funds being transferred from the federal government to the provinces. However the ratio of allocations among the provinces is still based on population which means it will not offer any remedy for the disparities among the provinces. Moreover, largely because of the disorder in Sindh, the census intended for 1991 was postponed, and this will cause further discrepancies between allocations and the actual ratio of population. This will work to the disadvantage of those regions where urbanization is progressing which will fuel demands for corrections.

It seems, however, that the main object of the 1991 recommendations was part IV, specifically the revenue-deficit grants which totaled Rs. 9.5 billion in the 1990/91 fiscal year, and which had become a federally funded financial security blanket for the provinces. These grants were abolished as of the 1991/92 fiscal year, and to make up for these there is to be an expansion of the taxes and excises subject to allocation. The effect of this is that revenues exceeding the amount lost from revenue deficit grants is to be transferred to each province. In this sense these latest recommendations have worked to ease the tight position of provincial finances for some years to come. But even with this great increase in the amount of transferred revenues, it is still difficult to imagine that federal dominance, the fundamental feature of Pakistan's financial system, has changed. The new recommendations make no proposals at all about development funding. They do not touch at all on the dominance of the federal government in Pakistan's finances. Instead one can see in the recommendations a further strengthening of the role played by federal tax allocations, while at the same time they seem to be yet another brake inhibiting the unrestricted expansion of provincial finances. If long-term reforms as indicated in parts V and VI should come about, then perhaps change in the structure of federal government-province relations may be possible. But for this to become a reality, there will have to be strong demands for provincial autonomy.

APPENDIX TABLE 5-1

OUTCOME OF THE RECOMMENDATIONS OF THE NATIONAL FINANCE COMMISSION (1991/92 BUDGET)

(Million Rs.)

	Before	After	Increase
I. Expansion of tax allocations to the provinces:			
Previous three taxes	38,354.2	38,354.2	—
Excise duty on tobacco and tobacco manufacturers	—	7,296.0	7,296.0
Excise duty on sugar	—	2,964.0	2,964.0
II. Refunding the benefits of resources development:			
Excise duty on natural gas	1,232.6	1,232.6	—
Royalty from natural gas	615.0	615.0	—
Surcharge on natural gas	—	7,427.9	7,427.9
Net profits from hydroelectric power (confirmed portion only)[a]	—	5,987.5	5,987.5
Royalty from petroleum	—	1,273.5	1,273.5
III. Subventions to the provinces:			
N.W.F.P.	100.0	200.0	100.0
Balochistan	50.0	100.0	50.0
Sindh	—	700.0	700.0
Punjab	—	1,000.0	1,000.0
Amount of increase			+ 26,798.9

Increases by Category	Punjab	Sindh	N.W.F.P.	Balochistan
I.	5,938.5	2,388.5	1,389.2	543.8
II.	1,044.8	2,601.2	5,987.5	5,055.4
III.	1,000.0	700.0	100.0	50.0
Total	7,983.3	5,689.7	7,476.7	5,649.2
Estimated decreases with abolition of the revenue-deficit grants[b]:	5,000	2,400	3,200	1,000

Sources: Government of Pakistan, Finance Division, *Explanatory Memorandum on the Budget (EMB),* 1991/92 edition, pp.17–19; Government of North-West Frontier Province, *Budget Memorandum for 1991–92,* Vol.6, p.19; concerning the estimated decrease in the amount of revenue-deficit grants, see *EMB*, 1987/88 and 1988/89 editions.

[a] Confirmed only for N.W.F.P.

[b] Approximate average for the three years from 1986/87–1988/89.