

Concept Note

Population, Resources, and Representation:

Rethinking NFC for Equity and Balanced Development

Background

Pakistan's federal structure is anchored in the National Finance Commission (NFC) Award, the constitutional mechanism that determines the vertical (federal–provincial) and horizontal (inter-provincial) distribution of financial resources under Article 160 of the Constitution. While intended to promote cooperative federalism, fiscal equity, and national cohesion, the NFC formula has, over time, become **heavily skewed toward population size**, which currently carries **an 82 percent weight** in resource allocation among provinces.

This singular emphasis on population has **distorted the equity intent** of the NFC and created **perverse demographic incentives**. Since fiscal transfers, parliamentary seats, public-sector employment quotas, and even university admissions are directly or indirectly tied to provincial population shares, higher population numbers translate into larger fiscal allocations and greater political representation. Consequently, population growth, rather than human development performance, has become a determining factor of fiscal advantage.

The repeated linkage between census outcomes and fiscal rewards has made **population enumeration politically sensitive**. Allegations of over- or under-counting have become recurrent, delaying censuses and undermining trust in demographic data. Pakistan's population has grown from **33.7 million in 1951 to 241.5 million in 2023**, averaging **around 2.5 percent annual growth for seven decades**, one of the highest sustained rates in Asia. Such growth far outpaces improvements in literacy, health, and employment, and has complicated planning and service delivery across sectors.

Historically, Pakistan used population as the **sole criterion** for inter-provincial distribution from 1974 to 2009. The **Seventh NFC Award (2010)** introduced limited diversification by adding poverty/backwardness (10.3 %), revenue generation (5 %), and inverse population density (2.7 %), yet the **population weight remained dominant**. Smaller or geographically challenged provinces such as **Balochistan and Gilgit-Baltistan** continue to face higher costs of service delivery but receive proportionally less fiscal space, perpetuating developmental imbalances and widening regional disparities.

International experience shows alternative models of fiscal federalism that better balance **equity, efficiency, and demographic responsibility**.

- **India** drastically reduced the population weight in its Finance Commission formula from 90 percent in the 1950s–1970s to **15 percent today**, while introducing new indicators such as *income distance*, *area*, *forest cover*, *fiscal discipline*, and *demographic performance* (rewarding states that successfully reduced fertility).
- **South Africa, Canada, and Australia** rely on independent finance commissions using multidimensional criteria and performance-based indicators, separating fiscal transfers from raw population counts.

Pakistan's experience, by contrast, illustrates how **an over-reliance on population as a fiscal determinant has discouraged demographic moderation and weakened**

incentives for human capital investment. The resulting pattern has constrained poverty reduction, increased dependency ratios, and sustained inter-provincial mistrust over census data.

As debates intensify around the next NFC Award and its potential recalibration, there is a strong case for **redefining the distribution formula** through a **data-driven, consensus-based, and development-oriented approach**. Incorporating parameters such as **income gap, human development index (HDI), demographic performance, fiscal effort, geographic area, and climate vulnerability** would not only make fiscal transfers more equitable but also align national resource distribution with the objectives of the **Sustainable Development Goals (SDGs)** and **Pakistan Vision 2035**.

Rebalancing the NFC formula toward multidimensional indicators would help ensure that resources flow **not merely where people are most numerous, but where they are most in need** — fostering fairness, inter-provincial harmony, and sustainable, inclusive development.

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Problem Statement

The current NFC design has become a **demographic and development paradox**: it rewards numbers, not performance. By maintaining a high population weight, the system disincentivizes provinces from addressing population growth and limits the fiscal space for human capital investment.

This imbalance has resulted in:

- Incentives for inflated population counts during census exercises.
- Fiscal inequity across provinces and within regions.
- Widening inter-provincial development gaps.
- Reduced motivation to invest in population management, education, and health.
- Erosion of trust in demographic data and census integrity.

Objective of the Session

The session aims to foster a **data-driven and consensus-oriented dialogue** among policymakers, economists, and development practitioners to **re-envision the NFC formula** for Pakistan.

Specifically, it seeks to:

- Examine the demographic and fiscal consequences of population-based allocation.
- Highlight international best practices in fiscal federalism and demographic incentives.
- Explore **evidence-based alternatives** for incorporating multidimensional indicators, such as income gap, human development, demographic performance, and area, into the NFC formula.
- Build a roadmap toward **equitable, transparent, and sustainable fiscal distribution**.

Key Discussion Questions

- **Delinking Population and Resources:**
 - How can Pakistan restructure its NFC formula to reduce the excessive 82% population weight and avoid perverse incentives for unchecked population growth?
 - What would be the fiscal and political implications of progressively lowering the population weight in future NFCs (e.g., to 60%, 40%, or below)?
- **Equity through Multidimensional Criteria:**
 - Which alternative indicators, such as poverty, income gap, demographic performance, human development, or area, should form part of a balanced and equitable NFC formula?
 - What role could a composite equity index (combining poverty, education, health, and demographic outcomes) play in resource allocation?
- **Demographic Performance as Incentive:**
 - Should provinces with better demographic outcomes (lower fertility rates, higher female education, and better health indicators) be rewarded in fiscal allocation? How can such indicators be operationalized?
- **Fiscal Justice and Human Development:**
 - How can fiscal transfers be better aligned with human-capital investment goals such as universal education, reproductive health, and gender equality?
 - What mechanisms could ensure that fiscal resources translate into measurable improvements in population welfare and SDG outcomes?
- **Consensus Building for Reform:**
 - What institutional or political mechanisms can help build consensus among provinces to adopt a reformed NFC that strengthens trust and national cohesion?
- **Data and Evidence for Decision-Making:**
 - How can PBS, Planning Commissions, and provincial Bureaus of Statistics collaborate to produce harmonized datasets for future NFC calculations?
 - What safeguards are needed to ensure data transparency, regular updates, and third-party validation of indicators used in fiscal transfers?
- **International Experience:**
 - What lessons can Pakistan draw from countries that successfully linked fiscal transfers to performance, inclusion, and demographic management?
 - How did India's introduction of a demographic performance criterion change provincial behaviour, and could Pakistan replicate that model?

Proposed Structure

- **Opening Keynote Address:**
Setting the Context: Population, Fiscal Federalism, and Development Equity in Pakistan.
- **Panel Discussion:**
Expert dialogue among policymakers, economists, Population Expert and statisticians on revisiting NFC formula parameters.
- **Q&A / Open Forum:**
Engagement with participants and policy practitioners.
- **Closing Reflections:**
Charting a pathway for evidence-based and consensus-driven NFC reforms.

Suggested Keynote Speaker

- **Dr. Ishrat Hussain** (Economist, Policy Analyst, Former State Bank governor)

Suggested Moderator

- **Mr. Muqaddar Ali Shah, UNFPA**

Suggested Panelists

1. **Fiscal policy experts and Author of the proposed new NFC formula** (Dr. Ashfaq Hassan Khan)
2. **Representative from Pakistan Bureau of Statistics (PBS)** – Dr Naeem Zafar
3. **Macro-Economic Specialist** (Mr. Saqib Sheerani, Economist, Policy Advisor, and Economic Analyst)
4. **International Population expert** (Dr Luay Shabaneh, UNFPA Representative)

Expected Outcomes

- Heightened policy awareness of the limitations and inequities in the existing NFC formula.
- Shared understanding of the need to delink population size from fiscal rewards.
- Agreement on potential parameters for an equity-based NFC formula.
- Draft outline for a policy roadmap toward sustainable and demographically balanced fiscal federalism.
