



The Enigma of 11th NFC Award: Implications for Khyber Pakhtunkhwa

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Abstract

The 11th National Finance Commission Award is one of the most important awards in the federation of Pakistan for focusing on the due share of the merged district of the erstwhile areas of the Federally Administered Tribal Areas. The 25th Constitutional Amendment made a landmark in 2018 when the tribal areas of the country were merged in the province of Khyber Pakhtunkhwa but still no financial benefits have been accrued to the areas after the merger. Objective of the study focuses on the enigma of the 11th NFC Award and its implications for the federation of Pakistan since the province of Khyber Pakhtunkhwa has been suffering since the incorporation of the 25th Amendment that brought about the merger of these territories of Khyber Pakhtunkhwa. Main findings of the study comprise the sense of deprivation on part of the Khyber Pakhtunkhwa, lack of finance resources and the need for the reallocation and readjustment of the resources to meet the needs of the people of the FATA after mergence in to the province of Khyber Pakhtunkhwa.

Introduction

The 11th National Finance Commission (NFC) held on 4th December 2025 for the distribution of divisible pool resources among the federating units both at the horizontal and the vertical level (Kiani , 2025). The meeting was presided over by the Federal Finance Minister Muhammad Aurangzeb while other members of the commission include four Provincial Finance Ministers and four non-statutory members; Dr. Asad Sayeed (Sindh), Mehfooz Ali Khan (Balochistan), Nasir Mehmood Khosa (Punjab) and Dr. Musharraf Rasool Cyan (Khyber Pakhtunkhwa), who are members of the NFC (Kiani , 2025) . The 11th NFC was constituted on August 22, 2025 to give new award for sharing federal divisible resources between the federation and the federating units as per their shares enshrined in the constitution. Clause 2 of Article 160 require the 11th NFC to distribute resources between the federal government and the federating units the net proceeds of five major tax categories; including capital value tax and corporation tax while excluding taxes on income consisting of remuneration paid out of the Federal Consolidated Fund (Kiani , 2025).

The 7th NFC award has been in effect for the last fifteen years having crossed its five years tenure. Due to disagreement between the Centre and the provinces



every year over the new formula, the president of Pakistan has extended the award (Bokhari, 2025). The 7th NFC Award was announced in December 2009 and became operational on July 1, 2010 (Federations, 2012). The Award is considered to be the landmark in the history of Pakistan since it broke the deadlock constraining the National Finance Commission, constituted in 2001 and 2006 to announce the awards (Federations, 2012). The deadlock came to end with the bringing in of two major changes including the reduction in the share of the federal government in the divisible pool by 10% points and the introduction of multiple indicator criteria for the distribution of the divisible pool replacing the earlier criterion based on population only. The distribution criterion prescribed in the 7th NFC award is given in the following table.

Table: Criteria for Distribution of National Revenue

	Presidential Order 2006	7th NFC Award
Provincial Share in Divisible Pool	46.25%	56% increasing to 57.5%
Grants and Subventions	3.75%	–
Indicators and Weights		
Population	100%	82.0%
Poverty		10.3%
Revenue Generation		5.0%
Inverse Population Density		2.7%
Given the Weights indicated above the provincial share in the Divisible Pool works out as follows:		
Punjab	53.01%	51.74%
Sindh	24.94%	24.55%
Khyber Pakhtunkhwa	14.88%	14.62%
Balochistan	7.17%	9.01%

Source: Adapted from “Pulling Back from the Abyss: Third Annual Report,” Institute of Public Policy, Beaconhouse National University.

Presently the divisible pool includes the following revenue sources:

- Personal Income Tax
- Tax on corporate income
- Wealth tax
- Capital Value Tax
- Taxes on sales and purchase of goods
- Custom duties
- Federal Excise Duty (excluding on Gas)

The reduction in the share of the federal government in the divisible pool enabled the NFC to recommend the transfer of greater funds to all the provinces (Federations, 2012). Punjab that had been in favor of the retention of population share criterion has not been a loser despite the change in the distribution formula. The end of the deadlock coupled with the transfer of more funds to all the provinces have led to an almost universal appreciation for the award (Federations, 2012). The award owes its significance to the effect that the reduction in the share of the Centre at the expense of the provinces has proved to be in the spirit of true democracy. This is in line with the spirit of provincial autonomy that was earlier



granted to the provinces under the 18th Constitutional Amendment to the Constitution of 1973, the Islamic Republic of Pakistan.

The 18th Constitutional Amendment has provided protection to the share of each province in the federation by stipulating that the share of the federating unit in any future award should not be less than its previous share in the award (Bokhari, 2025). Only a unanimous agreement amongst all the federating units lead to a fruitful result of the distribution of resources and would make the system more transparent and accountable. A fresh NFC award has become imperative to ensure that fiscal federalism should be dynamic, equitable and responsive to all the needs and requirements of the country (Bokhari, 2025). Fiscal federalism can better distribute the resources amongst the provinces if all the units agree over all the dynamics of the award (Tariq, The Concept of Symmetry and Asymmetry in Federalism with a brief Sketch of Economic Federalism, 2020). Transfer from the federal government to the four provinces of the country under the NFC divisible pool stood at Rs6.8 trillion. The 7th NFC award makes a significant landmark in increasing the share of provinces in the divisible pool from 47.5% to 56% in 2010-2011 and was increased to 57.5% from 2011 onwards (Bokhari, 2025).

The 7th NFC Award came into force in 2010 by increasing the share of the provinces in the divisible pool but despite that Pakistan's public finances face challenges due to some factors (Sherani, 2025). Some factors have greatly affected the balance between the federation and the federating units in giving its due share to the provinces. One of the factors responsible for this disequilibrium is the perennial low revenue mobilization. The second important factor in this regard is the lack of fiscal discipline on the expenditure side; meaning thereby the gap between the income and the expenditure that has further resulted in the disequilibrium between the Center and the provinces. The third important factor is the COVID-19 (Tariq, 2020), that led towards low income revenue generation in the finance sector. Economy of the country was greatly struck by the pandemic of COVID-19 during 2020 when the country had to embark upon some measures due to lockdown (Tariq, 2020). The fourth important thing is devaluation of Pakistani currency in the open market by the government during 2018-2019 and further during 2023 leading towards the price-hike in the country causing much poverty (Sherani, 2025). It is pertinent to mention that Pakistan's public finances have been facing some financial challenges since 1980s. The quest for much spending with low income and saving can lead to a condition where the country may face economic crunches and challenges that may go beyond its jurisdiction to overcome and resultantly has to rely on loans and relief packages from the donor agencies.

The low income and more expenditure create a condition of chronic low mobilization of revenue that may lead towards high fiscal deficit with an increased gap between the low income and the high expenditure. This may also result in the increased debt-servicing whereby a lion's share of the country's economy has to be spent on repayment of debt to the donor agencies. The country's debt-servicing increased to 52.5% of revenue by 2000 (Sherani, 2025). Fiscal deficit demands for relief packages and greater income with low expenditure for the economy to be sustained but in Pakistan the issues of internal security, border issues on both the eastern and the western sides of the country may add to the gap between the income and expenditure, increased spending on defense, imbalance between imports and exports, and issues of inflation, price-



hike, low economic growth, and issue of poverty in the country. Resultantly, the state had to move for debt relief under the Paris Club in 2001 and the country had to observe an upshot of fiscal deficit up to 7.6% of the Gross Domestic Product (GDP) (Sherani, 2025).

Despite the weak tax effort, growth in the federal revenues matched the annual increase in debt servicing from 2012 till date. Debt servicing not only weakened the economy but also slows down developmental projects and leads to an increased poverty ratio in the country (Sherani, 2025). Lack of accountability and transparency may be the other contributory factors resulting in low economic growth and per capita income. The country may also be faced with economic crunches and challenges and the state has to take certain steps for taking loans and foreign aids from the donor agencies. The donor agencies may in turn, increase the mark up rate and impose different conditionality that may create more poverty and reliance on other states for survival.

Pakistan's economy suffered real shocks in 2019 onwards where the currency faced severe devaluation and decrease in the market value of the rupee. This made the country face with issues of price-hike coupled with the steep increase in the policy rate by State Bank of Pakistan. It is pertinent to mention that Pakistani rupee lost its value up to 63% against the US dollar in the open market since 2017 (Sherani, 2025). These have added a debt shock of about 23.1 trillion amounting to 48% during the period between 2018-2025 (Sherani, 2025). Public finances suffered a lot as a result of the provincial transfers coupled with the sharp increase in the policy rate by the State bank of Pakistan. Another factor that led to the low public finances was the COVID-19 during 2020 and 2021 where the government's response to the pandemic caused the government treasury a fiscal stimulus of 4.9% of the gross domestic products.

Failure of the perennial revenue mobilization has caused Pakistan the issue of public spending crisis. Coupled with these are issues of mis-governance in some sectors and utilization of the additional resources transferred to the provinces under the 7th NFC Award. Since 2010, round about Rs40.4 trillion have been transferred to the provinces for education, health and sanitation services but still the number of out of school children has increased instead of being decreased (Sherani, 2025). Health sector, besides other social and developmental sectors have faced issues and challenges. The combined public budget for the financial year 2024-25 points at the governance failure (Sherani, 2025). The total governmental expenditure at both the federal and provincial level taken collectively sands at Rs24trillion while afar payment of the interest, salaries, pensions, and defense spending, an amount of Rs12.6 trillion (or \$45 billion) was available for discretionary spending (Sherani, 2025).

Though the 7th NFC Award is a compounding factor in determining the shares of the provinces yet it is not a proximate cause (Sherani, 2025). Multiple governments in the country have failed to respond adequately by stepping up fiscal effort to introduce safeguards for public expenditure. Failure lies with the ruling elite of the government who are usually unwilling to pay taxes or even favor their near and dear ones through nepotism or even fail to spend the country's resources in the right way or even meet the challenges of public finances. In democratic federations, the instruments of redistribution of resources should come through political bargaining and give and take since none of the federating unit is self-sufficient in any resources. It is this bargaining that keeps both the horizontal and the vertical distribution of resources in a just and transparent way.



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The main issue is not how the resources are distributed but how and where they are used. Most of the funds are utilized by the public representatives in their constituencies in their own way and style without taking the people into confidence. Proper checks and balances system comprising members from different strata of the society can help in producing the officious results. Efficacy can be achieved by extending the circle of the 'spending class' to the ruling people, opposition party, representatives from the center, and representatives from civil society, media, technical experts in the relevant fields.

The 7th NFC Award expired in 2015 but it still governs the finances of the country (Cyan, 2025). The 9th and 10th NFC Awards were called into sessions only once during their five year tenure and the economy of the country shook, moved towards stagnation and bounced back (Cyan, 2025). During the last ten years, the NFC worked through inertia; making allowance for the sustainability and preventing any change from coming through. Pakistan changed, the region and its environment changed, people's needs changed, the country was struck by climate disasters, COVID-19, areas of the Federally Administered Tribal Areas (FATA) merged in the province of Khyber Pakhtunkhwa but the NFC has been static since 2015 (Cyan, 2025). The most glaring example of NFC being in the state of inertia is that more than 1/3rd of the province of Khyber Pakhtunkhwa still falls outside the jurisdiction of the NFC formula though FATA merger came in 2018 with the 25th Constitutional Amendment to the Constitution of 1973 (Cyan, 2025). There is a greater need to update the award to match the actual boundaries of the federation, population and expenditure responsibilities. The main challenge before the 11th NNFC Award is to settle the issues of public finance of the province of Khyber Pakhtunkhwa after the merger of FATA.

The main aim of FATA's merger was to bring its areas into the mainstream of national life, economy, and politics. The 25th Amendment to the constitution redefined the geographical frontiers of the province, while adding 5.5 million people to the existing population of the province. Not only this but also the addition of FATA to the province of Khyber Pakhtunkhwa, also added the poorest delivery system, under-developed public infrastructure, and a war-struck economy of the tribal districts to the province. The tribal areas have been struck by terrorism, militancy and extremism since 2001 when the US intervened in Afghanistan. About 70% population of the merged areas live below the poverty line, literacy ratio of 33%, and only 46% of people to have access to drinking water.

The areas of tribal belt were merged on June 1, 2018 in the province of Khyber Pakhtunkhwa through a constitutional amendment but even after the lapse of seven years, the NFC award has failed to include the merged areas in to the ambit of the revenue of the province (Cyan, 2025). The people of merged areas have been deprived of Rs1,300 billion that has to flow for the development and integration of the people of FATA. The 25th Constitutional Amendment was seen as a sign of good omen by the people of merged districts but no substantial change has and positive prospect has shaped their destiny even after a lapse of seven years. A survey of 2020 enshrine that a 69% feel more important as citizens of Pakistan, 64% report being more connected to Pakistan and 68% had a greater say in the affairs of the state (Cyan, 2025). Another survey of 2022 show that 76% showed disappointment due to 4 to 6 hours of frequent break down of electricity, more than half faced with healthcare problems, and 59% still wait to be connected to good roads to the cities and public services.



The people of merged areas of FATA have been facing deprivation since long even prior to their being merged into the province of Khyber Pakhtunkhwa. Prior to the merger of FATA, the per capita public spending under the 7th NFC Award had an average of only Rs25, 571, barely half of Balochistan's Rs44, 236. After the merger, the gap widened, because the province of Khyber Pakhtunkhwa received only Rs168 billion out of a pledged amount of Rs600 billion; having a short fall of 72% (Cyan, 2025). It is no surprise that a province does not receive its due share what it is pledged to receive. Depriving the merged areas of FATA of its due share is further adding to the problems of the people since most of the people of Khyber Pakhtunkhwa and ex- FATA has been struck by militancy and terrorism in the post-9/11 syndrome. About 73% death casualties struck the people of Khyber Pakhtunkhwa and the FATA during the years 2001 to 2018. But the agonies of the people did not end here, even after the merger; about 59% of such deaths struck the people of these areas.

The NFC has an important role to play in allocating the national resources between the federation and the federating units (PRAC, 2025). It is pertinent mention that the formula of 2010 has greatly impacted the financial viability of the federal government as well as the local governments that has resulted in the perpetual economic instability whereby the Human Development Index (HDI) has been lowered down 13 places from 155, 50 to 168 since 2008 (PRAC, 2025). For timely fiscal reallocation of resources and avoiding any disagreement amongst the provinces, the country needs to revisit constitutional requirements for the reconstitution of the NFC Awards better for five years. This will address the issue of the smaller provinces and would cover the needs and requirements of the provinces and merged areas of the ex-tribal areas into a better position to get its due share in the financial allocation of the country.

The 11th NFC meeting focuses on the reallocation and redistribution of financial resources in a manner that can guarantee the share of the ex-tribal areas now merged in the province of Khyber Pakhtunkhwa through 25th Constitutional Amendment in 2018. The meeting emphasizes the adopting the best global practices and shift from a population- centric to an efficiency- centric horizontal distribution model, reducing the population weight from the current 82% to 50% (PRAC, 2025). Applying the 50% weightage, the census of 1998, this would carry a 30% weight while that of 2023 census would carry a 20% weight, addressing the ongoing dispute over population area.

The 7th NFC Award failed to achieve or meet its 15% tax-to- GDP target by Financial Year, FY 2015, which resulted in the overall stagnation from 10.1% in FY10 to 11.1% in FY 2025. Moreover, the provincial contributions saw only a nominal increase from 0.4% during FY 10 to 0.85% in FY 2025. With these deficiencies, the 11th NFC Award recommends incorporating revenue generation as a key factor with a 15% weight by reducing provincial dependence on federal transfers and strengthens fiscal autonomy.

Discussion and Conclusion

The meeting of the 11th National Finance Commission was held on 4th December 2025 for the distribution of divisible pool resources between the federation and the federating units. The meeting aimed the distribution of resources both horizontally and vertically to meet the needs of the federating units. The 25th



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Constitutional Amendment in 2018 brought the merger of the ex-Federally Administered Areas in the province of Khyber Pakhtunkhwa but the finance of the province suffered huge financial crunches for not giving the due share of the ex-tribal area to the province of Khyber Pakhtunkhwa. August 22, 2025 provided for the constitution of the 11th NFC commission for the distribution of divisible resources between the Centre and the provinces of the country.

The 7th NFC award has been in force for over the last fifteen years despite the fact the tenure of the five years has elapsed. Lack of agreement between the federation and the federating units have made it face issue and challenges in reaching out a consensus-based mechanism. Announced in 2009, and became operational in 2010, the 7th NFC is considered to be the most significant award in the history of the country as it broke the deadlock in constraining the National Finance Commission for announcing the award. The deadlock culminated in bringing to an end while introducing the reduction in the share of the federal government in so far as the divisible pool by 10% points and the introduction of multiple indicator criteria meant for the replacement of the earlier criteria based on population only.

The 18th Amendment determined the share of each province in the federation by focusing that the share of each province in the future award should not be less than its previous share in the award. Only a vibrant and dynamic system could help in resolving the issues of the federation by making it accountable and more transparent. A fresh NFC that can determine the share of all the provinces keeping in the needs and requirements of the provinces with a revised strategy may help in resolving the issues of the smaller provinces. It is pertinent to mention that the 7th NFC Award came into force in 2010 by focusing on the reduction of the share of the federal government and the resultant increase in the share of the provinces. But despite all these efforts, the public finances of the country face certain challenges. The factors responsible for these challenges include; firstly, the issue of the perennial low revenue mobilization has made the country face an economic challenge. Secondly, the lack of fiscal discipline has created disequilibrium between the income and the expenditure. Thirdly, the COVID-19 during 2020, on account of the lockdown has also led towards low income and revenue generation. Fourthly, the devaluation of Pakistani currency during 2018 -2019 and then during 2023 has brought about more poverty in the country, greatly affecting the life of common masses.

The low income and more expenditure can create a condition of disequilibrium between the income and the expenditure whereby the country may be faced with more and more problems and issues. Besides, this, the country has to embark upon receiving more and more loans from the donor agencies and has to rely more relief packages from the International Monetary Fund and other agencies. Not only, most of the income of the country may be spent on debt-servicing but also gap between the federation and the units may go on increasing due to unequal distribution of resources and denying certain areas its due share in the finances. The federation needs to revisit its policies' to such an extent as to take into confidence all the four provinces of the state by giving its due share in the finances and other resources of the country so that no smaller province or the erstwhile areas of the tribal belt that were merged into the province of Khyber Pakhtunkhwa through 25th Amendment in 2018.



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