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RESEARCH PAPER

Reforming the National Finance Commission (NFC) Award: Fiscal Federalism and Center-Province Tensions in Pakistan (2020-2026)

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ABSTRACT

This article examines the debate on reforming Pakistan's National Finance Commission (NFC) Award between 2020 and 2026 through the lens of fiscal federalism and center-province relations. It argues that the NFC is not merely a revenue-sharing formula but a constitutional mechanism for negotiating provincial autonomy, fiscal sustainability, political trust, and national cohesion. Since the 7th NFC Award and the 18th Constitutional Amendment, provinces have received a guaranteed share of the divisible pool, while the federal government continues to bear heavy responsibilities for debt servicing, defense, pensions, national development, social protection, and special territories. Recent fiscal pressures, IMF-supported stabilization, climate shocks, and weak provincial own-source revenue have reopened the reform debate. Using a theoretical and document-based methodology, the article synthesizes recent academic, policy, and official sources on fiscal decentralization, vertical imbalance, horizontal equity, provincial tax effort, local government transfers, and cooperative federalism. It proposes that reform should not recentralize resources but should create a constitutionally sound, performance-oriented framework that protects autonomy while strengthening responsibility, transparency, human development, climate resilience, and accountable service delivery across Pakistan. The study therefore treats fiscal reform as a historical problem of state capacity, negotiated federalism, democratic legitimacy, national cohesion, and institutional trust in contemporary Pakistan's governance.

KEYWORDS National Finance Commission, Fiscal Federalism, 18th Amendment, Provincial Autonomy, Center-Province Relations

Introduction

Fiscal federalism is one of the central operating principles of a federal state because it assigns taxing powers, expenditure responsibilities, and public resources among different levels of government. In Pakistan, this function is performed mainly through the National Finance Commission (NFC) Award under Article 160 of the Constitution, which determines the distribution of federal tax revenues between the federation and the provinces. The NFC is therefore more than an accounting arrangement. It is a constitutional settlement that shapes provincial autonomy, the capacity of provincial governments to deliver services, and the ability of the federal government to finance national obligations (Raza, 2024). The debate from 2020 to 2026 has become urgent because the 7th NFC Award, effective since July 2010, continues to operate in an environment of debt pressure, climate shocks, inflation, IMF-supported stabilization, population growth, and rising demands for public services.

The 7th NFC Award was widely regarded as a democratic and federal advance because it enlarged the provincial share of the divisible pool and introduced multiple criteria for horizontal distribution. Earlier awards relied heavily on population. The 7th Award added poverty or backwardness, revenue collection or generation, and inverse population density to the formula (Ahmad, Awais, & Rizvi, 2024). Politically, this design acknowledged the grievances of smaller provinces and attempted to move away from the perception that fiscal federalism favored the most populous province. At the same time, the Award generated a long debate about the remaining fiscal space of the federation after 57.5 percent of the divisible pool was transferred to the provinces. Recent studies describe this problem as a structural vertical imbalance: debt servicing, defense, pensions, national development, subsidies, and special-territory obligations remain largely federal, while provinces rely heavily on transfers rather than expanding their own-source revenues (Asif, 2025; World Bank, 2024).

The fiscal question became more complicated after the 18th Constitutional Amendment. The Amendment strengthened provincial autonomy by devolving important subjects, including health, education, agriculture, social welfare, labor, and local government (Kureshi, 2023). In principle, administrative devolution should have been accompanied by a clear reconfiguration of revenue assignments, expenditure responsibilities, local-government financing, and intergovernmental coordination. In practice, devolution remained incomplete. Provinces received greater spending authority but continued to depend on federal transfers, while the federal government continued to finance selected programs in devolved sectors. The result has been overlap, duplication, and recurring tension over who should finance social protection, provincial development schemes, and public service delivery (World Bank, 2024).

The period from 2020 to 2026 produced three developments that sharpened the case for reform. First, weak tax-to-GDP performance, rising debt servicing, energy-sector losses, and persistent fiscal deficits reduced federal fiscal space. Second, provinces faced rising expectations in health, education, irrigation, sanitation, climate adaptation, and poverty reduction, while their fiscal behavior remained transfer-dependent. Third, the National Fiscal Pact, developed under the pressure of IMF-supported reform, signaled the need for a new burden-sharing mechanism between federal and provincial governments. The Pact did not replace the NFC, but it showed that Pakistan needs a constitutionally negotiated and politically credible framework for shared fiscal responsibility (Bhutta, 2025; IMF, 2024; PIDE, 2025).

The issue, therefore, is not whether Pakistan should practice fiscal federalism. Provincial autonomy is a fundamental part of the constitutional and political settlement created after the 18th Amendment. The real issue is how fiscal federalism can be made both autonomous and sustainable. A reform that simply reduces the provincial share would be politically contentious and constitutionally sensitive. Yet an unchanging formula can also weaken macroeconomic stability and generate new grievances among provinces and between the center and the provinces. A more useful pathway is cooperative federalism, in which constitutionally protected provincial autonomy is linked with measurable provincial tax effort, transparent expenditure, local-government financing, and development outcomes (Ahmad, Awais, & Rizvi, 2024; Asif, 2025; Raza, 2024; SDPI, 2025).

This article contributes to the debate by synthesizing theoretical and policy discussions on NFC reform from 2020 to 2026. It argues that Pakistan has entered a post-devolution adjustment phase. The first phase, represented by the 7th NFC Award and the 18th Amendment, focused on political accommodation and provincial empowerment. The second phase must focus on cost management, incentive-based financing, and coordinated fiscal responsibility. Recent historical research on Pakistan's national identity, provincial marginalization, higher bureaucracy, and CPEC-related intergovernmental relations is useful here because fiscal conflict is never purely technical; it is embedded in longer histories of state-building, policy culture, and center-periphery mistrust (Jawad & Shabbir, 2024; Jawad, Shabbir, & Abbas, 2025; Shabbir, 2026; Shabbir, Ali, & Batool, 2024).

Literature Review

Most studies of fiscal federalism begin from the assumption that decentralized governments can better reflect local preferences and provide services when expenditure responsibilities and revenue authority are properly aligned. Subnational governments are expected to correct allocative inefficiencies because they are closer to citizens. The same literature, however, warns that decentralization can create macro-fiscal risks when provincial or state governments receive large transfers without corresponding revenue effort or hard budget constraints. Recent research on Pakistan applies this theoretical concern to the NFC Award: devolution has strengthened the legitimacy of provincial autonomy, but it has not fully resolved the coordination problem between national stabilization and provincial spending discretion (Ahmad, Awais, & Rizvi, 2024; Raza, 2024; World Bank, 2024).

A major strand of the literature concerns the historical significance of the 7th NFC Award. Ahmad, Awais, and Rizvi (2024) view the increased provincial share and the use of criteria beyond population as a positive federal development. Asif (2025) also treats the NFC as a mechanism for resource distribution and provincial autonomy, but stresses that equity depends not only on formula design but also on institutional effectiveness. These studies show that the 7th Award was politically progressive because it responded to smaller-province grievances. At the same time, it created new fiscal questions when federal obligations continued to rise and national revenue mobilization remained weak.

The 18th Amendment occupies a central position in this debate. It abolished the Concurrent Legislative List and devolved major social-sector responsibilities to the provinces. In theory, this should have clarified functions: provinces would plan and finance service delivery, while the federation would focus on national public goods, debt management, defense, macroeconomic stabilization, and interprovincial coordination. Recent studies, however, show that administrative and financial devolution remain incomplete. Kureshi (2023) describes Pakistan's federal setup as a hybrid model in which provincial autonomy coexists with central influence, uneven capacity, and weak local governments. Raza (2024) adds that Article 160(3A), which prevents reduction of the provincial share in a future award, protects autonomy but also limits fiscal flexibility.

Another major theme is vertical fiscal imbalance. Vertical imbalance exists when one level of government has larger expenditure responsibilities than its revenue sources, or when revenue authority and spending responsibilities are not properly matched. In Pakistan, the Federal Board of Revenue collects most broad-based taxes, but a large share of the divisible pool is transferred to provinces under the NFC formula. After these transfers, the federal government remains responsible for debt servicing, defense, pensions, national infrastructure, subsidies, and federal territories. The World Bank's Federal Public Expenditure Review identifies expenditure rigidities, fiscal deficits, and weak revenue mobilization as central sources of Pakistan's fiscal stress (World Bank, 2024). Statements by the Ministry of Finance and the Planning Commission also show continued concern about federal obligations after NFC transfers (Government of Pakistan, 2026; Planning Commission of Pakistan, 2026).

A third stream examines horizontal distribution among provinces. Horizontal imbalance arises from differences in population, poverty, geography, revenue capacity, security costs, climate vulnerability, and service-delivery needs. The 7th NFC Award attempted to address these differences through multiple indicators, but population remains the dominant criterion. The Sustainable Development Policy Institute (2025) recommends a more balanced formula that includes revenue growth, poverty reduction, environmental sustainability, and gender equity. This approach moves the NFC debate beyond the older politics of provincial shares toward a newer politics of performance, needs, and incentives.

Provincial revenue effort is another recurring concern. Provinces possess important revenue sources, including agricultural income tax, property tax, sales tax on services, and user charges. Their own-source revenues, however, remain low in relation to federal transfers. This problem became more visible during the debate on the National Fiscal Pact, which called attention to agricultural income taxation, property-tax reform, and harmonization of intergovernmental taxation (Bhutta, 2025; PIDE, 2025). Dependence on transfers can weaken accountability because voters may not directly connect provincial spending with provincial taxation. A reformed NFC should therefore reward revenue effort without punishing poorer provinces with smaller tax bases.

Empirical studies also link fiscal decentralization with service delivery. Ahmed and Qayyum (2022) examine decentralization and health in Balochistan and show that fiscal autonomy does not automatically improve outcomes unless provincial planning, implementation, and monitoring capacity are strengthened. Ghafoor (2024) associates fiscal decentralization with educational outcomes in Punjab, while Riaz et al. (2024) find that federal transfers can affect health indicators when institutional capacity exists. Khan and Malik (2025) and Naeem (2022) extend this concern to human development and gender parity. These studies shift the NFC debate from formula politics to the question of whether transfers produce measurable improvements in citizens' lives.

Debt management and macroeconomic stability form another important stream of research. Rehman (2022) argues that the post-18th Amendment fiscal order complicates sustainable fiscal balance because federal liabilities remain large. IMF documents from 2024 and 2025 emphasize prudent fiscal policy, revenue mobilization, provincial surpluses, and better public-finance coordination (IMF, 2024, 2025). These documents do not design the NFC formula, but they shape the policy environment in which NFC reform is debated. The National Fiscal Pact emerged from this stabilization context and shows that intergovernmental finance is linked not only with autonomy but also with debt sustainability and external credibility.

Institutional weakness is also a recurring concern. Article 160 requires periodic NFC formation and review, but Pakistan has not achieved a durable new award after the 7th NFC. The Government of Sindh's summary of NFC arrangements notes that seven NFCs have been announced since the 1973 Constitution and that the 7th Award was signed in December 2009 and implemented from July 2010 (Government of Sindh, 2026). Yet the system has not functioned as a regular adaptive process. Raza (2024) proposes operationalizing an NFC Secretariat, improving monitoring, and strengthening intergovernmental forums such as the Council of Common Interests. The Center for Governance and Public Accountability (2025) similarly emphasizes transparency, periodic review, and institutional capacity.

The most relevant recent historical works add a needed context to this policy literature. Studies on Pakistan's ideological narratives, bureaucratic policy culture, provincial marginalization, and CPEC-related federal tensions show that center-province disagreements are shaped by longer histories of identity formation, administrative centralization, and uneven development (Ali & Shabbir, 2023; Jawad & Shabbir, 2024; Jawad, Shabbir, & Abbas, 2025; Shabbir, 2026; Shabbir, Ali, & Batool, 2024). These works are relevant because NFC reform is not simply a technical adjustment. It is part of Pakistan's continuing struggle to reconcile national cohesion with provincial dignity, development planning with local consent, and state capacity with federal pluralism.

III. Theoretical Framework

The theoretical framework of this article combines fiscal federalism theory, cooperative federalism, and institutional incentive theory. Fiscal federalism provides the basic analytical language for understanding the NFC Award. It asks which level of government should raise revenue, which level should spend, and how transfers should correct imbalances. In Pakistan, provinces are responsible for many social sectors after the 18th Amendment, while the federal government controls the most productive revenue bases. This separation creates a transfer-dependent federation in which the NFC Award links centralized revenue collection with decentralized expenditure responsibility (Raza, 2024).

Cooperative federalism forms the second pillar of the framework. In a cooperative model, the federation and provinces do not treat fiscal relations as a zero-sum contest. They use constitutional forums, shared data, negotiated norms, and joint monitoring to manage interdependence. Debt sustainability, tax effort, disaster response, social protection, local-government finance, and development planning all require cooperation because no single level of government can handle these challenges alone. The National Fiscal Pact illustrates this interdependence, but cooperative federalism must remain domestically owned and constitutionally grounded if provinces are to trust it (Ahmad, Awais, & Rizvi, 2024; PIDE, 2025).

Institutional incentive theory is the third pillar. Governments respond to the incentives built into transfer formulas. A formula based mainly on population may not encourage population stabilization. A formula that recognizes poverty but not poverty reduction may compensate need without rewarding improvement. A formula that does not include own-source revenue may encourage continued dependence on federal transfers. Conversely, a well-designed formula can reward revenue effort, service-delivery improvement, climate resilience, and local-government transfers. The reform proposals by SDPI (2025) and Raza (2024) point in this direction by recommending performance-based indicators and stronger monitoring.

These three theories generate four criteria for evaluating NFC reform. The first is autonomy: if federalism is a political settlement, provinces must retain constitutionally protected fiscal space. The second is sustainability: the federation must have enough capacity to finance national responsibilities, service debt, and respond to shocks. The third is equity: poorer, smaller, geographically difficult, and climate-vulnerable regions must be recognized. The fourth is accountability: governments receiving transfers must be answerable for tax effort, expenditure quality, service outcomes, and local-government financing. A reformed NFC should be judged by its capacity to balance these criteria rather than by whether it favors the center or the provinces (Asif, 2025).

The period 2020-2026 is analytically significant because it combines pandemic recovery, inflation, rising debt, climate shocks, IMF-supported stabilization, and renewed debate on the National Fiscal Pact. These pressures reveal that the 2010 fiscal settlement was not sufficiently adaptive. Pakistan therefore needs a second-generation federal finance settlement. The first generation protected provincial autonomy; the second generation must connect autonomy with shared fiscal responsibility, transparent performance measurement, and joint problem-solving.

Material and Methods

This study uses a theoretical and document-based methodology. It does not test a statistical hypothesis and does not rely on primary interviews. Instead, it offers an interpretive synthesis of recent research and policy documents on Pakistan's fiscal federalism from 2020 to 2026. This approach is appropriate because the NFC reform debate involves constitutional principles, institutional incentives, intergovernmental trust, and normative questions of autonomy and sustainability. The NFC Award is treated as a mechanism of intergovernmental fiscal relations and is examined through fiscal federalism theory, cooperative federalism, and institutional incentive theory (Raza, 2024; World Bank, 2024).

The source base includes peer-reviewed articles, policy studies, government documents, international financial reports, and recent historical research. Sources were selected purposively for their relevance to fiscal federalism, NFC distribution, the 18th Amendment, provincial revenue capacity, fiscal sustainability, center-province relations, local-government transfers, and public service delivery in Pakistan. Academic sources provide conceptual and empirical interpretation. Policy and official sources are included because the current reform process is still unfolding, and much of the most recent material appears in government, IMF, World Bank, PIDE, SDPI, and related policy documents.

The analysis proceeds through thematic synthesis. First, each source was reviewed for its treatment of the strengths and weaknesses of the current NFC system. Second, recurring themes were coded under seven categories: constitutional rigidity, vertical imbalance, horizontal equity, provincial revenue effort, expenditure assignment, institutional coordination, and public-service outcomes. Third, academic and policy sources were compared to identify convergence and disagreement. Finally, the study developed reform principles rather than a new numerical formula. A new formula would require detailed fiscal modeling, provincial negotiations, and constitutional deliberation beyond the scope of this theoretical article.

Results and Discussion

The first finding is that Pakistan's NFC problem reflects a tension between constitutional protection and fiscal adaptability. Article 160 safeguards provincial autonomy by preventing arbitrary recentralization. This protection is vital in a federation shaped by historical mistrust among provinces. However, the 7th NFC Award was designed for the fiscal conditions of 2009-2010 and has remained in force through major economic shocks, IMF programs, climate disasters, and changing expenditure pressures. Ahmad, Awais, and Rizvi (2024), Raza (2024), and Asif (2025) all point to fiscal imbalance and implementation gaps. Reform must therefore protect autonomy while allowing the system to adapt to changing realities.

The second finding concerns vertical fiscal imbalance. The center collects the major taxes, but a substantial share of the divisible pool is transferred to provinces. After transfers, the federation remains responsible for debt servicing, defense, pensions, federal subsidies, national infrastructure, and territories outside the four provinces. The fiscal result is a gap between federal revenues and federal obligations. The World Bank (2024) identifies expenditure pressures and weak revenue mobilization as major sources of fiscal stress. The issue is not that provinces receive more than they deserve; rather, the entire assignment of revenues, expenditures, and borrowing responsibilities requires adjustment.

Third, the existing horizontal formula only partly reflects contemporary development needs. The 7th NFC Award reduced sole reliance on population by including poverty, revenue effort, and inverse population density, but population still carries the greatest weight. This benefits Punjab because of its population size, while Sindh, Khyber Pakhtunkhwa, and Balochistan continue to debate whether the formula adequately reflects revenue generation, security costs, geography, climate risk, and development deficits. SDPI (2025) proposes incorporating performance and need indicators such as revenue growth, poverty reduction, environmental sustainability, and gender parity. Such a shift would make transfers both compensatory and incentive compatible.

Fourth, provincial revenue effort remains weak. Provinces depend heavily on federal transfers even though they possess important revenue sources. Agricultural income tax, property tax, sales tax on services, and user charges remain underdeveloped compared with their potential. The National Fiscal Pact tried to address this issue through proposals on agricultural income taxation, property-tax coordination, and expenditure rationalization (Bhutta, 2025; PIDE, 2025). These ideas should be institutionalized through a reformed NFC process rather than treated as temporary arrangements.

Fifth, center-province tensions are intensified by overlapping expenditure responsibilities. After the 18th Amendment, many subjects were devolved, yet the federal government still funds selected programs and development schemes in areas that fall within provincial responsibility. This creates duplication and political bargaining over who should finance which service. A clearer division of expenditure assignments, supported by the Council of Common Interests and the National Economic Council, would reduce conflict and improve fiscal discipline (PIDE, 2025; Planning Commission of Pakistan, 2026).

Sixth, fiscal decentralization does not automatically improve public services. Empirical evidence on health and education suggests that transfers can improve outcomes only when provincial planning, administrative capacity, monitoring, and accountability are strong. Riaz et al. (2024) and Ahmed and Qayyum (2022) show that institutional capacity matters for health outcomes, while Ghafoor (2024) highlights education-related gains in Punjab. Khan and Malik (2025) and Naeem (2022) indicate that human development and gender parity should be part of the evaluation of decentralization. Future awards should therefore measure what fiscal transfers achieve, not only how much each province receives.

Seventh, NFC reform is increasingly linked with macroeconomic stabilization. Fiscal deficits, public debt, and IMF programs have made federal-provincial finance part of Pakistan's national economic survival. IMF reports from 2024 and 2025 emphasize revenue mobilization, fiscal prudence, and provincial surpluses (IMF, 2024, 2025). Provinces are no longer peripheral to macroeconomic policy. Their spending patterns, revenue decisions, and fiscal balances affect national targets. A future NFC should therefore include a joint fiscal responsibility framework that links provincial commitments with debt sustainability, revenue effort, and development priorities.

Eighth, local government remains the missing actor in Pakistan's fiscal federalism. The 18th Amendment strengthened provincial autonomy, but fiscal decentralization often stops at the provincial treasury. Local governments frequently lack predictable transfers, revenue powers, and institutional continuity. Raza (2024) argues that weak fiscal decentralization to local governments obstructs equitable grassroots development. The logic of decentralization requires government to move closer to citizens. Future NFC reform should therefore be linked with regular Provincial Finance Commission awards and predictable transfers to elected local governments.

Ninth, institutional trust is as important as formula design. Pakistan has not reached a new NFC consensus partly because provinces fear that reform may weaken autonomy, while the federation argues that the current system is fiscally unsustainable. PIDE (2025) notes that the National Fiscal Pact shows cooperation is possible when stakes are high, but a durable settlement requires transparency, shared data, and constitutional legitimacy. The NFC Secretariat, Council of Common Interests, Finance Division, provincial finance departments, and Provincial Finance Commissions must function as part of a regular federal fiscal architecture rather than as episodic negotiation forums.

Tenth, Pakistan should move from a distributive to a developmental model of NFC reform. A developmental model asks what transfers accomplish. It would protect baseline provincial allocations while using incremental grants, performance windows, and transparent indicators to reward revenue effort, poverty reduction, human development, climate resilience, population stabilization, and local-government transfers. This approach would reduce zero-sum bargaining and align fiscal federalism with sustainable development. Recent work on provincial marginalization and CPEC's federal legacy reinforces this point: national development projects can strengthen cohesion only when provinces perceive them as equitable, participatory, and institutionally fair (Ali & Shabbir, 2023; Jawad, Shabbir, & Abbas, 2025; Shabbir, 2026).

The discussion therefore rejects two extremes. The first is recentralization, which would undermine the democratic and federal gains of the 18th Amendment. The second is formula rigidity, which treats the 7th NFC Award as a permanent solution despite changing conditions. A balanced reform would preserve the constitutional principle of provincial autonomy while making the formula more dynamic. It could protect minimum provincial shares while strengthening reporting requirements, provincial own-source revenue effort, expenditure rationalization, climate-sensitive transfers, and provincial-local fiscal devolution.

Conclusion

This article has argued that reforming the NFC Award is one of Pakistan's most significant fiscal and constitutional issues between 2020 and 2026. The 7th NFC Award and the 18th Amendment strengthened provincial autonomy and responded to grievances against excessive centralization. The same framework now operates in an environment of fiscal stress, high debt servicing, weak tax mobilization, climate vulnerability, and rising development demands. The problem is not federalism itself but the failure to update the institutions and incentives that finance federalism.

The analysis identifies five interrelated sources of center-province tension: constitutional rigidity, vertical fiscal imbalance, incomplete expenditure assignment, weak provincial revenue effort, and inadequate performance accountability. Unilateral recentralization is not a solution, but neither is an unreformed formula defensible. A sustainable solution requires cooperative federalism, shared data, stronger intergovernmental institutions, and a formula that protects autonomy while encouraging accountability.

The NFC Award should remain faithful to Article 160 and to the spirit of provincial autonomy, but it should also incorporate indicators that reflect contemporary Pakistan. Revenue effort, poverty reduction, human development, climate resilience, population stabilization, and local-government transfers should become part of the reform debate. The National Fiscal Pact may serve as an interim step, but the durable solution must be a constitutionally negotiated NFC consensus. Such a consensus would turn fiscal federalism into an instrument of equitable development, macroeconomic sustainability, democratic interprovincial relations, and national cohesion.

Recommendations

The next-generation NFC Award should be developed gradually rather than abruptly. The first stage should be diagnostic. The federal and provincial governments should jointly publish a fiscal federalism white paper covering expenditure obligations, revenue assignments, debt pressures, provincial own-source revenue performance, and public-service outcomes. This would improve trust because all governments would negotiate from a shared evidence base. The white paper should separate three issues that are often confused: vertical distribution between the federation and provinces, horizontal distribution among provinces, and expenditure responsibilities for devolved subjects (Bhutta, 2025; Government of Sindh, 2026; World Bank, 2024).

The second stage should rationalize federal expenditure before demanding large provincial sacrifices. Provinces often interpret calls for NFC reform as attempts to roll back the 18th Amendment. The federation should therefore demonstrate that it is reducing duplication in devolved sectors, reviewing subsidies, improving tax administration, and prioritizing national responsibilities. Cooperative reform must be mutual rather than one-sided or externally imposed (Kureshi, 2023; Raza, 2024).

The third stage should gradually introduce performance-based horizontal indicators. Sudden changes in formula weights would provoke provincial resistance. A phased approach can protect baseline allocations while creating incremental grants or performance windows for tax effort, human development, climate adaptation, poverty reduction, and gender equity. Revenue effort should be measured against each province's own base year so that smaller provinces are rewarded for improvement rather than penalized for their limited tax base. Climate indicators should include flood exposure, drought vulnerability, forest protection, and adaptation planning (Riaz et al., 2024; SDPI, 2025).

The fourth stage should link the NFC to Provincial Finance Commissions. A key weakness of Pakistan's federalism is that fiscal autonomy at the provincial level has not translated into stable fiscal devolution to local governments. NFC monitoring should therefore examine whether provinces are transferring predictable resources to elected local bodies. Provincial autonomy should not be violated, but it should carry responsibility for grassroots governance. The success of fiscal federalism depends on improved services to citizens, not merely on larger provincial treasury receipts (Ahmed & Qayyum, 2022; Ghafoor, 2024; Raza, 2024).

The fifth stage should make review a regular procedure. Pakistan should not wait for another fiscal crisis before negotiating a new bargain. Biannual monitoring, an operational NFC Secretariat, public dashboards, parliamentary reporting, and dispute-resolution mechanisms should become normal features of the system. These reforms would turn the NFC from an episodic political bargain into a continuous process of cooperative fiscal administration.

Future Research Implications

Future research should empirically evaluate NFC transfers at the provincial and district levels. Much of the current debate is constitutional and political, but future studies should test whether greater provincial shares improve health, education, water, sanitation, poverty reduction, climate adaptation, and local infrastructure. Existing work by Riaz et al. (2024), Ahmed and Qayyum (2022), Ghafoor (2024), Khan and Malik (2025), and Naeem (2022) is valuable, but newer province-level and district-level data for 2020/21-2025/26 are needed.

Future studies should also model alternative NFC formulas. Researchers can estimate how different weights for population, poverty, revenue effort, climate risk, inverse density, human development, and gender equity would affect each province. Such modeling would reduce political speculation by showing the distributional consequences of reform. SDPI's roadmap offers a useful policy starting point, but academic modeling can help design formulas that are politically negotiable and constitutionally viable (SDPI, 2025).

A third area for future research is institutional behavior. Scholars should examine how the Council of Common Interests, National Economic Council, NFC Secretariat, Finance Division, provincial finance departments, and Provincial Finance Commissions actually operate. NFC reform depends not only on a formula but on institutions that collect data, monitor performance, settle disagreements, and publish reliable fiscal information. Comparative studies of other federations may also help Pakistan design mechanisms of cooperative fiscal discipline that do not undermine provincial autonomy (Kureshi, 2023; Raza, 2024).

A fourth implication is policy-oriented. Future NFC negotiations should be linked with a transparent fiscal compact. The compact should define provincial commitments on revenue mobilization, expenditure reporting, local-government transfers, and development outcomes. It should also define federal responsibilities for reducing duplication, improving tax administration, and respecting provincial autonomy. Such clarity would convert center-province tensions into measurable responsibilities.

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