

Rethinking Population Weight in Pakistan's NFC Award


Why Reform Is Needed Now


Because provinces finance most devolved services through NFC transfers, the NFC revenue distribution formula must track differences in deprivation, service demand, and the cost of delivery. A population-heavy approach is administratively simple but reduces equity, especially where poverty, remoteness, and fiscal capacity vary sharply across provinces.


What Decision is Needed

Approve a phased rebalancing of the NFC horizontal formula: retain population but reduce its dominance and reallocate weight to 1) poverty/deprivation, 2) service-linked population for health and education, 3) cost-to-serve, and 4) fiscal capacity, with a time-bound hold-harmless safeguard.

Lessons from International Experience

Nigeria (avoid): Population plus political “equal shares” without explicit need/capacity equalization preserved disparities. The lesson is that reduced population weight must be replaced by technically grounded indicators. 

South Africa (adapt): Population was retained but refined into service-linked measures (education- and health-relevant), improving alignment between transfers and devolved functions. 

Australia (direction): Equalization is anchored in fiscal capacity and cost-to-serve assessments. Population is mainly a scaling factor. The lesson is to move over time toward capacity- and cost-adjusted equalization supported by an independent technical body. 

An Illustrative Rebalanced NFC Formula for Pakistan

The table below is illustrative and intended to guide discussion; specific weights should be stress-tested through simulations and agreed transition rules.

Component	Suggested Weight	Rationale
Population (basic)	40–50%	Retains legitimacy and stability.
Poverty / deprivation	20–25%	Directly targets unequal need.
Service-linked population (health, education)	15–20%	Aligns resources with devolved service demand.
Cost-to-serve (area, remoteness)	5–10%	Compensates higher delivery costs.
Fiscal capacity / revenue potential	5–10%	Strengthens horizontal equalization.
Performance / effort (optional; capped)	≤5%	Creates incentives without volatility.

KEY MESSAGES

1. Population is the strongest driver of provincial share. This limits the NFC's ability to equalize service-delivery capacity and can reward population growth rather than growth.
2. Comparative international experience shows that reforms work when the formula explicitly targets need (deprivation), service responsibilities (e.g., health/education demand), and cost/capacity differences - not when weights shift mainly for political accommodation or population size.
3. A feasible path is a gradual, transparent rebalancing that preserves stability (by keeping a substantial population share) while adding needs- and cost-based components and strengthening independent technical support.

Implementation: Next Steps (6–12 months)

1. Adopt a phased transition over at least one NFC cycle, with a published path for weights and a time-bound hold-harmless rule to avoid abrupt shocks.
2. Agree on a small set of auditable indicators and data sources (and an update schedule) and commit to data upgrades to improve data quality.
3. Establish or strengthen an independent technical secretariat to run simulations, publish methods, and support dispute resolution on data.
4. Publish distributional simulations (by province) for alternative weights and safeguards before finalizing the Award, including sensitivity to population and poverty data revisions.

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