

Disproportionate Growth: the NFC Award and Its Impacts on Interprovincial Inequality in Pakistan

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ABSTRACT

The 7th NFC Award, which determines how fiscal resources are distributed within provinces, came into effect in 2010. However, the impact of this fiscal mechanism on education, income and employment has not been thoroughly researched. This study examined how the increase in federal transfers led to changes in literacy, unemployment and incomes. This research utilised the purposive sampling technique and conducted a questionnaire to gather data about the effectiveness of the 7th NFC Award. It was found that, although higher federal transfers increased the fiscal capacity of provinces, the findings do not indicate that the increase in funds was sufficient enough to substantially reduce interprovincial disparities in literacy, income and employment. These findings suggest that the NFC Award must be restructured to incentivise development and revenue generation to promote equitable resource distribution.

1. Introduction

Pakistan, a federal nation consisting of four provinces: Punjab, Sindh, Khyber Pakhtunkhwa (KPK) and Balochistan, experiences stark differences in inter-provincial social and economic development. The provinces of Punjab and Sindh are comparatively more developed with higher employment rates, greater HDIs, more infrastructure development and greater labour productivity than KPK and Balochistan. According to the Pakistan Bureau of Statistics (PBS), KPK and Balochistan fall behind with lower literacy rates, lower incomes, less private investment (Yousuf and Sasaki 2003) and reduced access to healthcare facilities. These persistent provincial disparities in economic and social development arise from unequal infrastructure development, outdated practices of resource allocation and structural differences in the regions' economic compositions. Consequently, KPK and Balochistan face difficulties in achieving poverty alleviation, raising standards of living and increasing household incomes.

Pakistan's National Finance Commission (NFC) Award, a constitutional mechanism for transferring federal tax revenue to the individual provinces, was revised in 2009 (7th NFC

Award) with the expectation of boosting provincial development and reallocating resources more effectively. The 2009 NFC Award, previously based primarily on a population formula, was adapted to consider multiple criteria such as poverty, revenue generation and inverse population density. This improved resource allocation method was established to enable lagging provinces to invest in better education, more infrastructure and job creation, ideally minimizing inter-provincial disparities.

However, despite these restructured policies, the interregional disparities continued to prevail. For instance, Balochistan's literacy rate is seen to be 8% below the national average according to the Pakistan Economic Survey of 2022-23. The lack of improvement in the economic and social development of KPK and Balochistan raise questions about the effectiveness of the NFC Award and the subsequent provincial-level growth projects.

1.1 Problem Statement:

Pakistan's overall rates of economic growth and social development have been impeded by incessant imbalances in the provinces, as seen by the social and economic indicators. Despite numerous fiscal policies like the NFC Award being put in place to address these issues, inter-provincial inequality in education, income, unemployment and healthcare remains. As a result, it is vital to analyse the effectiveness of these resource allocation mechanisms and consider the extent that such policies have achieved their objectives.

Although there are research papers concerning Pakistan's interregional disparities, most of the ones available focus primarily on one social or economic indicator and do not utilise recently published data. Limited studies provide a thorough analysis that incorporate multiple socio-economic indicators over a recent period. The impacts of current fiscal policies have not yet had an empirical evaluation. Furthermore, the socio-economic state of individual provinces has been examined, but, all the provinces have not been compared comprehensively.

The lack of up-to-date, thorough, multi-dimensional analysis on the provincial imbalances and their subsequent impacts on standards of living in poorer provinces restrains abilities of policymakers to construct successful policies. The aim of this study is to explore the causes of interregional inequality and assess the effects of current fiscal policies put in place to solve this issue.

1.2 Purpose of Study:

The purpose of this study is to assess the extent of the provincial disparities in income, education and unemployment to ultimately discover their impact on the living standards. The goal of this paper is to examine the effectiveness of the revised NFC Award and the resultant development

projects on addressing these imbalances. Specifically, the aim is to recognise the patterns in income inequality, literacy and unemployment rates between the years 2009-2026. Moreover, the objective is also to understand the relationship between the fiscal policies and the disparities between the provinces in order to promote more equitable development.

1.3 Research Questions:

What is the effectiveness of the NFC Award in addressing the provincial disparities?

Which economic and social indicators clearly demonstrate Pakistan's interregional inequality? What are the underlying economic causes of the uneven distribution of growth in Pakistan's provinces?

What is the hindrance to the development in the poorer provinces?

How can existing fiscal policies be improved to encourage socio-economic growth in all the provinces?

1.4 Hypothesis:

Provinces receiving a higher per capita NFC transfer post 2009 exhibit greater increases in literacy rates, employment and incomes. Poorer provinces have relatively lower improvements in education, employment and incomes despite receiving greater federal transfers after the 7th NFC Award.

1.5 Significance of Study:

This economic study contributes to the understanding of inter-provincial inequality in Pakistan. It focuses on three key indicators: income per capita, literacy rate and unemployment rate.

Overall, this paper evaluated the impact of a major fiscal policy, the 7th NFC Award, and the subsequent development programs to assess their impact on the standards of living in the provinces.

1.6 Scope and Delimitations:

This research focuses on the four provinces of Pakistan and three economic indicators (income per capita, unemployment rate and literacy rate) using data from 2009 to 2026. This paper is addressing only the economic implications of interregional inequalities. It concentrates on the NFC Awards impact on development spending and indicator trends.

1.7 Key Definitions:

Income per capita: a measure of the amount of money earned per person in a nation or geographic region.

Interprovincial: existing or carried on between provinces of the same country. Disparities: a difference in level or treatment, especially one that is seen as unfair. Fiscal: relating to government revenue, especially taxes. *OxfordLanguages

NFC Award: a financial sharing agreement which divides national tax revenue and financial resources between the federal and provincial governments.

2. Literature Review

2.1 Economic Inequality in Pakistan and Its Provinces

Numerous studies have attempted to uncover the underlying causes behind economic inequality in developing countries. (*Inequality and Fiscal Policy* 2015) reported that direct income taxes and transfers lowered the Gini coefficient of countries with advanced economies by one third.

However, in the case of developing economies, allocating tax revenue towards investment in education and healthcare results in a trade-off between lowering future income inequality and decreasing current income inequality. (Namini 2018) found that there is bi-directional Granger causality between inflation and income inequality in the long-run for both the developed countries and least developed countries group. Some studies like (Gupta 2022) emphasise the importance of tax reforms in reducing inequality. This paper found that tax reforms lower the disposable Gini index and increase income share of the bottom 10 percent, thus lowering economic inequality. There are many different ideas about the most effective policies to deal with economic inequality in developing countries. However, Pakistan has employed a fiscal and decentralised policy to reduce economic inequality.

Furthermore, many economists have researched the correlation between income inequality and other economic indicators. (Rehman 2008) concluded that, irrespective of the economic development stage, financial development and income inequality had a negative correlation.

This negated the inverted U-shaped relationship between income inequality and financial development. The empirical results of (Haq 2016) revealed that overall globalisation is not associated with income inequality, however, economic globalisation has a worsened impact on income inequality. (Jaumotte et al 2013) concluded that increased globalisation has a relatively minor impact on income inequality as there are two offsetting effects of globalisation. Increased trade helps reduce income inequality, but FDI tends to increase it.

Additionally, the unemployment problem is prevalent in many developing countries, such as Pakistan. (Feldmann 2009) found that larger government sectors lead to more unemployment in developing countries. A large share of government consumption in total consumption and a large share of transfers and subsidies in GDP appear to have harmful effects. According to (Menguy, 2025), this is due to the fact that an increase in public spending would be beneficial to economic growth only up to a maximal variation, which positively depends on real capital returns. In the case of Pakistan's unemployment, (Qayyum and Siddiqui 2007) have concluded that Pakistan faces high youth unemployment due to a faulty administrative structure, a lack of institutions which guide young students into fields that fulfill the needs of the country. They have also found that structural unemployment is one of the main drivers of high urban unemployment in Pakistan.

In order to address these unemployment issues, the Pakistani government introduced social protection schemes (International Labour Organization, 2026). The most prominent program is the Benazir Income Support Programme (BISP) which provides regular financial transfers to families living below the poverty line and vulnerable female-led households. Although these unconditional cash transfers have aided Pakistan's vulnerable consumers, the transfers have not significantly impacted their socioeconomic wellbeing due to inconsistent payment frequencies, inflation reducing the real value of transfers and insufficient amounts of cash given (Nayab & Farooq, 2020).

Many developing countries suffer from comparatively lower literacy rates to developed countries. There have been a multitude of theories about the cause of these lower literacy rates which range from lower internet access to less democratic governance. In the instance of Pakistan, lower literacy rates can be attributed to the lack of regulation regarding child labour and absence of educational infrastructure in rural areas (Kalhoro 2020). (Shahzad et al. 2024) conducted a study in Multan, Punjab and found that fewer economic opportunities was one of the main drivers of lower educational attainment in Pakistan.

Many different conclusions have been made about the causes of provincial inequality in Pakistan. For instance, (Shahzad 2016) found that the indicators for fiscal decentralisation appear to be positively associated with income inequality. It can be seen that provincial level governments are less efficient in collection of taxes and the resource distribution as compared with the central government. This leads to the provincial budget not being effectively allocated towards poverty alleviation and redistributive policies.

2.2 History of NFC Award

Pakistan introduced fiscal federalism in the form of the NFC Award in 1974 following the 1973 Constitution of Pakistan. The provinces received 80% of national revenue and the federation

received 20%. Income tax, sales tax and export duty were also included in the divisible pool. Each individual provinces' share was based on population only; however, Balochistan and KPK also received annual grants based on their weaker financial positions. The NFC Award remained the same until 1990. In 1990, the NFC Award was revised to include excise duty on sugar and tobacco in the divisible pool (Uddin 2010).

The Fifth NFC brought about two basic changes: all taxes were brought into the divisible pool excluding excise duty on gas and the national revenue sharing ratio was altered, giving the provinces 37.5% and the federation 62.5%. There were no major changes to the NFC Award until 2009 when the 7th NFC Award came about.

The 7th NFC Award introduced a new formula to distribute the national revenue within the provinces. This formula was based on multiple factors: population, poverty/backwardness, revenue collection/generation and inverse population density. The national revenue was distributed in a new ratio with the federation receiving 57.5% and the provinces receiving 42.5%. 1% of the net proceeds of the taxes was allocated to KPK to cover expenses on war on terror.

3. Data Source and Methodology

3.1 Research Design

This research used the inductive research approach to study the effectiveness of the 7th NFC Award and the following provincial-level growth projects at increasing growth proportionately to reduce economic inequality in all the provinces. The study focused on how this fiscal reform affected unemployment, literacy rates and income inequality.

The methodological triangulation process was adopted to collate the data needed to provide a conclusive answer to this research question. A range of research methods were used: secondary data from government publications and primary data that encompasses both qualitative and quantitative responses from experts.

The study utilised a quantitative method to obtain an understanding of the research problem. Study employed quantitative research design. Quantitative research is a structured, empirical method used to collate and identify patterns in numerical data.

The study used online questionnaires administered through Google forms. The sample size consisted of at least 25 individuals. Respondents were selected from individuals working or associated with the respective area. Google forms were used to create and distribute questionnaires. These questionnaires utilised expert perception of policy effectiveness. This expert policy perception on the effectiveness of the NFC Award cannot be measured through

secondary data. That is why I have included primary data collection via Google Forms with 25-30 respondents. Secondary data was obtained from 2009 to 2026 using sources like PBS and Pakistan Economic Survey.

3.2 Target Population and Sampling Technique

Target population is denoted as the total, specific group of people that are used for a study. The target population for this study consisted of 25-30 individuals. These individuals were studied using a purposive sampling technique. Purposive/selective sampling is a technique where researchers individually choose specific people to survey based on certain traits, expertise or characteristics which are applicable to the research. Purposive sampling was used as it ensures only those who are knowledgeable and experienced in the respective field provide information, ensuring the information is accurate.

3.3 Data Collection

The data collection employed questionnaires. Each questionnaire consisted of 18 questions:

1. Which province do you live in or primarily work on?
2. Which of the following best describes your role or involvement with this topic?
3. The 7th NFC Award which has shifted from a population-only formula to a multi-variable formula has effectively reduced the income gap between the provinces. 1 - Strongly Disagree, 5 - Strongly Agree
4. The NFC Award has increased the provinces' dependence on the federal government and inadvertently discouraged local revenue generation. 1 - Strongly Disagree, 5 - Strongly Agree
5. The disparity in education standards between provinces is more a result of mismanagement of funds than a lack of funds provided by the NFC. 1 - Strongly Disagree, 5 - Strongly Agree
6. The NFC Award has provided provinces with enough fiscal autonomy to create competitive investment climates that reduce local unemployment. 1 - Strongly Disagree, 5 - Strongly Agree
7. The NFC Award must contain performance-based incentives for provinces to ensure provincial funds are effectively allocated. 1 - Strongly Disagree, 5 - Strongly Agree
8. The revised NFC Award has improved public services in all provinces, subsequently

improving living standards. 1 - Strongly Disagree, 5 - Strongly Agree

9. Inter-provincial disparity in access to basic utilities (gas, electricity, clean water) has significantly decreased due to the revised fiscal framework. 1 - Strongly Disagree, 5 - Strongly Agree
10. Increasing the fiscal decentralisation with the revised NFC Award has enabled local needs which directly affected provincial development to be addressed. 1 - Strongly Disagree, 5 - Strongly Agree
11. The NFC Award's effectiveness is dependent upon distributing fiscal autonomy to districts within the provinces. 1 - Strongly Disagree, 5 - Strongly Agree
12. Which indicator do you think most clearly represents the gap between Pakistan's provinces?
13. The real disparities between provinces are accurately depicted by official statistics. 1 - Strongly Disagree, 5 - Strongly Agree
14. Historical underinvestment in infrastructure is the main driver of the uneven distribution of growth between provinces, not current fiscal policy. 1 - Strongly Disagree, 5 - Strongly Agree
15. Poor administration and limited institutional capacity is a greater hindrance to development in poorer provinces, in comparison to insufficient funding. 1 - Strongly Disagree, 5 - Strongly Agree
16. Development in poorer provinces has been significantly hindered by security concerns and political instability. 1 - Strongly Disagree, 5 - Strongly Agree
17. What is the biggest hindrance stopping poorer provinces from developing despite NFC transfers?
18. If the NFC Award was going to be revised, how should the government change the way the federal revenue is allocated?

3.4 Data Analysis Method

Percentages, tables, charts will be used to summarise and present the responses. Research will use data from secondary resources to support responses.

3.5 Ethical consideration

The following ethical measures were taken to ensure scientific validity and protection of respondents: participants were informed about the purpose of research, offered voluntary participation and the data was stored securely.

3.6 Validity, reliability and trustworthiness

In research, validity refers to the accuracy and truthfulness of scientific findings. The validity of this study was enhanced through triangulation (use of multiple methods, data sources to study the phenomenon to improve credibility and accuracy of findings).

Reliability in research is denoted as the repeatability and consistency of the research's findings. The reliability of the study was enhanced by using clear and understandable questionnaire items, conducting a pilot test before data collection and administering questionnaires with fairness.

Trustworthy in studies is described as the standard used to assess the quality and validity of a study. This study ensured trustworthiness through triangulation of data sources, accurate recording of questionnaire data and maintaining transparency throughout the research process.

4. Results and Findings

Having collated a series of data using both primary and secondary resources and both qualitative and quantitative responses, this chapter was written to present the findings that have been acquired.

4.1 7th NFC Award and Trends in Employment

Unemployment Rate as a % (including both genders)

Fiscal Year	Khyber Pakhtunkhwa	Punjab	Sindh	Balochistan
2014-15	7.9	6.0	4.8	3.9
2017-18	7.3	5.7	5.0	4.0
2018-19	10.3	7.4	4.0	4.6
2020-21	8.8	6.8	3.9	4.3

2024-25	9.6	7.3	5.3	5.5
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By Pakistan Labour Force Survey, Pakistan Social and Living Standards Measurement

The general consensus for the statement “The NFC Award has provided provinces with enough fiscal autonomy to create competitive investment climates that reduce local unemployment.” was that this revenue sharing mechanism did not have much of an impact on lowering local unemployment. 34.6% of respondents maintained a neutral stance on whether the NFC impacted local employment. However, 38.5% of respondents agreed that the NFC Award has not improved investment climates that aid employment in provinces.

Overall, the unemployment rates of all the provinces have increased over time due to poor macroeconomic conditions. Pakistan has experienced periods of high inflation numerous times throughout the period 2009-2026 due to high import bills and currency depreciation. This led Pakistan to adopt a contractionary response to address high inflation rates. However, in doing so, economic growth was lowered and the labour market was not able to absorb the new workers.

The unemployment rate of KPK has always been proportionately higher. There are many reasons for this: poor infrastructure, security concerns, reliance on informal jobs, large provincial expenses and weak job stimulation. KPK has the highest proportion of rural areas in comparison to the other three provinces. The infrastructure issue KPK faces is primarily due to the major gaps the rural areas face. Rural areas have less reliable power supplies and face connectivity gaps. The higher quality infrastructure tends to be concentrated around Peshawar as it is the most urbanised region of KPK. So, the limited industrial base of KPK has led to many workers working informal jobs and looking for overseas employment.

KPK also faces many security concerns on its Western border. In fact, 65.4% of respondents agreed that development in poorer provinces has been significantly hindered by security concerns and political instability. This security and political uncertainty leads to less private sector investment in the province and less corporations willing to set up in KPK. The security concerns coupled with the limited industrialization in KPK leads to less “white collar” jobs being available for graduates and consequently, graduate unemployment in KPK is very high.

Furthermore, there is also a persistent mismatch between the skills of the current workforce and the needs of the local economy. Despite the China-Pakistan Economic Corridor (CPEC) creating the Rashakai Special Economic Zone (SEZ) in KPK, graduate unemployment is still prevalent.

Most KPK graduates have generalist degrees, whereas the enterprises that make up the Rashakai SEZ are mostly pharmaceuticals, chemical processing and light industrial manufacturing (Salahuddin et al., 2026). The KPK graduates lack the technical and engineering-based skills

required for the Rashkai SEZ jobs.

The NFC Award was created with the aim that the provinces and the federation would have a shared responsibility toward revenue generation. However, the provincial revenues have fallen short of expectations. In the case of KPK, the provincial government relies on the NFC Award funds for around 90% of its revenue (Ali, 2026). Furthermore, 69.2% of respondents were either neutral or agreed that the NFC Award has increased the provinces' dependence on the federal government and inadvertently discouraged local revenue generation. KPK has a budget of Rs

2.17 trillion for the fiscal year 2026-27. This province has a very expenditure-heavy budget and it allocated Rs 1.64 trillion to fulfill current expenditure costs. The current expenditure costs cover civil service salaries, pensions and administrative costs. The remaining Rs 524.2 billion is allocated to annual development funds. Since the majority of KPK's budget is spent on fixed costs, there is minimal fiscal space for industrial development and public infrastructure investment. Furthermore, the Annual Development Programme (ADP) allocates most of its funds toward public services and small-scale infrastructure projects, such as building roads and bridges. There are few major projects that the provincial government is undertaking to create more jobs for KPK residents.

The current NFC framework includes multiple criteria: population (82%), poverty and backwardness (10.3%), revenue collection/generation (5%) and inverse population density (2.7%). Population dictates the majority of the NFC provincial transfers. However, KPK's population base is much smaller in comparison to Punjab and Sindh. Simultaneously, Punjab and Sindh receive comparatively more foreign investments than KPK and Balochistan, yet, the weight for population in the criteria results in Punjab and Sindh getting a significantly higher share of NFC transfers. Another key issue with the criteria of the NFC is that it contains no outcome-based conditionalities or incentives to create jobs and reduce unemployment. 65.4% of respondents agreed that the NFC Award must contain performance-based incentives for provinces to ensure provincial funds are effectively allocated.

4.2 7th NFC Award and Trends in Income Rates

Income levels in the provinces are also not equal. Punjab and Sindh have comparatively higher incomes per capita than KPK and Balochistan. Furthermore, both interprovincial inequality and intraprovincial inequality is prevalent in Pakistan.

According to (Gallup Pakistan, 2025), KPK has the highest household income levels out of all Pakistan's provinces with an average monthly household income of 35,073 PKR, followed by Punjab at 34,379.4 PKR, Sindh at 30,489.3 PKR and lastly, Balochistan at 29,958.7 PKR. Although KPK has the highest average household income, it also has the greatest average

household size at 6.94 persons (Pakistan Bureau of Statistics, 2023) which leads to its income per capita being lower than Punjab's.

Punjab has the largest and most diversified provincial economy, contributing about 60% to the national Gross Domestic Product (GDP) (Sardar et al., 2025). This is due to the fact that Punjab has high agricultural productivity and hosts Pakistan's major manufacturing hubs. Punjab dominates Pakistan's agricultural market and produces the majority of sugarcane, rice and wheat. The agricultural sector employs 48% of the provincial workforce. Punjab also houses major industrial cities like Faisalabad, Lahore, Rawalpindi and Gujranwala which are responsible for Pakistan's textile exports and manufactured goods. These sectors generally provide stable and higher wages, raising incomes per capita in Punjab. Punjab has also established multiple SEZs to boost large-scale manufacturing and employ more workers, increasing incomes per capita.

The 7th NFC Award resulted in Punjab receiving a lower proportion of federal transfers after changing the distribution formula from being solely dependent on population, however, the funds received increased in absolute terms after provinces as a whole owned 57.5% of the federal revenue. The largest chunk of Punjab's NFC funds is spent on administrative costs, but these funds are also used for subsidies and social safety nets. After the 7th NFC Award, expenditure on the social sector in Punjab increased (Mahmood et al., 2025). Punjab's provincial government funded initiatives such as the Punjab Ration Card (which provides low-income households with essential goods) and Punjab Himmat Card (which provides financial support to disabled residents), leading to Punjab having the lowest provincial poverty rate. While there have been nominal increases in Punjab's income per capita, the real purchasing power of citizens has fluctuated substantially due to volatile macroeconomic conditions post 7th NFC Award. However, the reason Punjab has the greatest income inequality with a Gini coefficient of 0.40024 (Jan et al., 2025) is that the increased social service spending also comes with higher administrative costs. So, adequate funds do not always reach the targeted people.

Sindh also has comparatively higher incomes per capita than KPK and Balochistan largely due to the economic power of Karachi. Karachi is considered the most urbanised and largest megacity in Pakistan as it houses the majority of multinational companies (MNCs), major banks and trading firms. Karachi is responsible for raising Sindh's incomes per capita. Sindh also faces a major rural-urban divide which is why it has high income inequality with a Gini coefficient of 0.373.

The government of Sindh has only a few social projects such as Sindh People's Housing for Flood Affectees and the People's Poverty Reduction Program. Therefore, one of the main issues with Sindh is the lack of development spending despite the increase in absolute funds from the 7th NFC Award. Sindh's development budget has been significantly reduced from a projected Rs

575 billion to Rs 400 billion (Siddiqui, 2026). Consequently, the number of infrastructure projects undertaken to boost employment and incomes is insufficient and Sindh has less income assistance programs than Punjab. Moreover, although the minimum wage has been raised from Rs 40,000 to Rs 43,000 per month and pensions of provincial workers have increased by 7%, weak enforcement of this law and the failure of pension increases to keep up with the inflation rate (Subohi, 2026) has led to lower incomes per capita.

KPK has lower comparative incomes than Punjab and Sindh due to structural, geographical and security problems. 80.8% of respondents were either neutral or agreed that historical underinvestment in infrastructure is the main driver of the uneven distribution of growth between provinces, not current fiscal policy. KPK has a limited industrial base due to conflict and instability causing capital flight and lack of investor confidence. Furthermore, small industries either lack access to electricity or face high energy costs that make production economically unfeasible (Hussain, 2026). This leads to KPK citizens having a lack of formal employment opportunities, resulting in lower comparative incomes per capita. As a consequence, KPK has to rely on a remittance-led service economy to fund domestic consumption. The inflow of remittances has led to KPK being the province with the highest GDP growth rate among Pakistan's provinces in recent years. However, these remittances fuel consumption rather than long-term investments.

Although KPK has allocated Rs 524.3 billion for its Annual Development Program, it mainly relies on the federal government to provide BISP payments for income support. However, it also does have the Ehsaas Umeed Card Programme which provides a monthly stipend of Rs 5,000 to citizens with disabilities, orphans or widows. So, there are only a few income support programmes which leads to lower incomes per person in KPK.

Balochistan has the lowest per capita incomes out of all Pakistan's provinces due to geographic and demographic challenges. Balochistan has a very mountainous terrain as well as arid deserts which makes building infrastructure very expensive and the consequent isolation exacerbates the urban-rural gap. Furthermore, rural Balochistan consists of sparsely scattered settlements which led to most of the infrastructure being heavily concentrated in the urban city of Quetta. The lack of infrastructure in Balochistan has led to business costs being high and a lack of formal employment opportunities in the private sector. Consequently, many families rely on subsistence farming and fishing which provide unsteady and generally low incomes.

Federal transfers make up the majority of Balochistan's provincial revenue. Balochistan's share of the NFC Award is largely spent on current expenditure costs as the public sector is responsible for providing most of the formal job opportunities. Similar to KPK, Balochistan also relies mostly on the federal BISP program for direct income support as most of its development funds

are spent on education and healthcare.

4.3 7th NFC Award and Trends in Literacy Rates

Literacy Rate as a % (including both genders)

Fiscal Year	Pakistan	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan
2007-08	56	59	56	49*	46
2011-12	58	60	60	52*	46
2013-14	58	61	56	53*	43
2018-19	60	64	57	55	40
2024-25	63	68	58	58	49

*KPK (Excluding Merged Areas)

By Pakistan Social and Living Standards Measurement and Household Integrated Economic Survey. (HIES, 2026)

Punjab has the highest literacy rates out of all of Pakistan's provinces. This province has high levels of private investment in education in comparison to the other provinces due to its higher urban concentration. It contains major urban centers such as Lahore, Rawalpindi and Faisalabad where schools, colleges and universities are very easily accessible.

Punjab also allocates approximately 15% of its provincial budget (Rs 750 billion) towards education. According to the 2026-27 annual budget, the School Education Department (SED) was allocated Rs 600.78 billion for current expenditures which covers day-to-day running cost and teacher salaries and Rs 13.18 billion for development schemes. The Higher Education Department (HED) was allocated Rs 83.48 billion for current expenditures and Rs 11.15 billion for development projects (Gabol, 2026). The Punjab government has many development initiatives such as the Chief Minister's Laptop Program (Rs 10 billion) and the Hunarmand Scholarship Program (Rs 20 billion).

However, while Punjab spends a lot on education initiatives and costs, its expenditure has not fully translated into better education. The majority of the education allocation is spent on

recurrent costs such as teacher salaries rather than productive costs such as teacher training, infrastructure development and student learning resources. This has led to many deficiencies in teacher training, which are linked to lower student learning outcomes. Although literacy rates have steadily increased in Punjab, most students do not have proper literacy and numeracy skills. Evidently, only 41% of Grade 5 students in Punjab could read a Grade 2-level text in Urdu or English (Ramzan & Rafiq, 2025).

Sindh and Balochistan increased their per capita spending the most since the 7th NFC Award began yet adult literacy and net enrollment declined (Husain, 2026). Initially, Sindh's literacy rate increased after the 7th NFC Award but steadily declined after that. Consequently, it can be determined that the 7th NFC Award has not had a significant positive impact on education in Sindh. This education gap is mainly due to administrative inefficiency and a lack of targeted allocations.

Sindh faces a significant teacher shortage with 45% of primary schools operating with one teacher (Pakistan Institute of Education, 2025). Despite the increases in federal transfers to Sindh, it has gradually reduced the share spent on the ADP. In Sindh, non-development expenditures exceed 90%, which means development shares have fallen to 3.6%. This has been reflected in Sindh's poor public education infrastructure as only 7.6% of public schools have all five basic facilities (electricity, drinking water, toilets, boundary wall, and satisfactory building conditions). In fact, 61.6% of respondents disagree with the notion that the revised NFC Award has improved public services in all provinces, subsequently improving living standards.

Balochistan has a very low population density as its citizens are spread across large distances. As a result, developing educational infrastructure is logistically challenging and expensive.

Furthermore, Balochistan also has a "ghost teacher" problem, where government salaries are given without the teachers actually teaching students due to a lack of checks and balances in the education sector. This province also has the least access to basic facilities with only 2.7% of public schools having basic facilities (Pakistan Institute of Education, 2025).

Interestingly, the majority of Balochistan's development budget is spent on education, but it still remains to have the lowest literacy rate. 69.3% of respondents agree that the disparity in education standards between provinces is more a result of mismanagement of funds than a lack of funds provided by the NFC. Furthermore, 76.9% of respondents agree that poor administration and limited institutional capacity is a greater hindrance to development in poorer provinces, in comparison to insufficient funding.

KPK is a fascinating province in terms of educational progress. It is the only province which did not significantly raise per capita spending on education but its net enrolment increased by 2%

and adult literacy rose by nine points (Husain, 2026). KPK's education has been improving at a faster rate than other provinces.

While the 7th NFC Award has provided KPK with more funds, it is not the primary driver of KPK's educational progress. KPK has also received assistance from donor agencies and non-profit organisations, such as the World Bank, to improve their education. Over the past few years, KPK has developed many monitoring systems. One example is the Education Monitoring Authority, which is a performance-based tracking system that monitors teacher attendance and student enrollment to evaluate schools' performance to ensure the recurrent public expenditure is being used effectively. Furthermore, KPK has also invested a lot of its ADP budget into improving educational infrastructure by ensuring access to electricity, furniture, toilets and clean drinking water.

However, the education in KPK is far from perfect. KPK still suffers from geographical isolation which leads to literacy rates in the southern districts being alarmingly low. The addition of the merged districts (ex-FATA) has also negatively impacted KPK's overall interest rates due to the intra-provincial educational inequality between the merged districts and cities like Peshawar and Abbottabad.

5. Conclusion and Policy Recommendations

5.1 Conclusion

In conclusion, while the implementation of the 7th NFC Award has resulted in the provincial governments having a greater fiscal capacity, this research does not show that the increase in federal transfers were sufficient to meaningfully reduce interprovincial disparities in literacy, unemployment or income.

The findings of this paper instead suggest that recurrent expenditures, weak administrative and institutional capacity, uneven infrastructure and security concerns limited the developmental impact of the greater federal transfers, especially in KPK and Balochistan.

The principal-agent problem where one party (the principal) delegates authority to another (the agent), but they have misaligned goals and incentives could be a possible explanation as to why the NFC Award has not aligned with expectations. Furthermore, the lack of funds transferred from the provincial governments to local governments could also explain why the NFC Award has led to provinces underperforming in regards to initial expectations. .

5.2 Policy Recommendations

- Framework should contain performance-based incentives.

Instead of being based on population (82%), poverty and backwardness (10.3%), revenue generation (5%) and inverse population density (2.7%), it should be based on population, revenue generation, poverty reduction, human development and inverse population density.

- NFC Award should add more provinces or distribute to district-level governments.
Intraprovincial inequality is a persistent issue that is prevalent in all four provinces. The funds must trickle down to the local governments to address the specific needs of each district rather than pumping more funds into the urban regions of the province.
- Implement monitoring units in the provincial public sectors to enhance service delivery.
One of the main issues is the inefficiencies of the provincial government, especially in the education sectors. The provincial governments should create monitoring authorities to assess the output of the public sector employees.
- All development spending should be funded by the provinces.
Federal expenditure should have fallen after the NFC Award was put into place. However, the federation still covers the costs of social protection programs and development projects that should have been funded by the provinces 18th Amendment was passed. This has resulted in provinces being disincentivised from creating social welfare programs tailored to their provincial needs.
- Provincial tax collection should increase.
Provinces should increase their tax bases as the collection of taxes such as agricultural tax, property tax and sales tax on services is within their jurisdiction. This would greatly reduce the provinces reliance on the federation and provide provinces with an even greater fiscal capacity to improve social services.

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