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Tracking Merged Areas Development Budget

Fiscal year 2017-18 to 2019-20

December 2019

Centre for Governance and Public Accountability (CGPA)
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Contents

Acronyms

NMAs	Newly Merged Areas
FATA	Federally Administered Tribal Areas
KP	Pakhtunkhwa
UNDP	United Nation Development Program
NFC	National Finance Commission
PSDP	Public Sector Development Programme
ADP	Annual Development Programme
PATA	Provincial Administered Tribal Areas
FBR	Federal Board of Revenue
MIS	Management Information System
SDS	Sustainable Development Strategy
MMR	Maternal Mortality Ratio
NEC	National Economic Council
HEC	Higher Education Commission
HIES	Household and Income Expenditure Survey
IPS	Inverse Population Density
SDS	Sustainable Development Strategy
TDS	Tribal Development Strategy

1. Scope of the Study

There is a renewed focus on the development of Newly Merged Areas (NMAs) after the passage of 25th constitutional amendment, which mainstreamed the erstwhile Federally Administered Tribal Areas (FATA) and merged the region into the province of Khyber Pakhtunkhwa (KP). Given the historical neglect of these newly merged areas, both federal and provincial governments have showed commitments of increased resource allocation for the development of the newly merged areas. International donor agencies too have shown commitment for increased focus on the newly merged areas to improve infrastructure and socio economic indicators of the region. The region with a population of more than 5 million people has suffered over the last 70 years due to terrorism and lack of resource allocation. As per UNDP figures of poverty for the year 2014-15[1], headcount poverty incidence in erstwhile FATA is highest at 73.7% as compared to the average poverty rate of 38.8% for the rest of Pakistan.

Purpose of the current study is to track the recent resource allocations of different levels of governments for the development of newly merged areas. The most recent resource allocation for the newly merged districts of about Rs162 billion by federal and provincial government under its 10-year development plan will be specifically tracked in the current study. The study will also review resource commitments of Khyber Pakhtunkhwa and Federal governments for the development of the newly merged areas as given in different budget and policy documents. The study will also review the historical neglect of erstwhile FATA in terms of budget allocation in different policy documents of both federal and provincial governments. The study will try to present the case of newly merged districts to be properly included in the new National Finance Commission (NFC) award for due constitutional share of the region.

2. Methodology of the Study

The objective of the study is to analyze the patterns of development spending of Federal Government and Provincial Government in the newly merged districts of Khyber Pakhtunkhwa. The review process for this study took into consideration various policy documents, which include Federal budgets, National Finance Commission Award (NFC), Public Sector Development Programmes (PSDP), and Annual Development Programme (ADP) of the Khyber Pakhtunkhwa province. The data used in the study will be mainly secondary published data of the federal and provincial budgets and other relevant policy documents to the newly merged areas. Different reviews of the budget for the NMAs in newspapers were also studied and included in the analysis. Review of literature and different publication reports were also the part of the research analysis.

3. Federal Budget 2019-20 & Newly Merged Areas

The new federal government formed after the merger of erstwhile FATA into Khyber Pakhtunkhwa province presented its first federal budget on 10th June, 2019 which specifically committed itself to the development of the newly merged areas. Finance minister in his budget speech, committed Rs 152 billion allocations for development of the newly merged districts and declared that high priority was awarded to mainstreaming of FATA in the province of Khyber

[1] https://www.undp.org/content/dam/pakistan/docs/MPI/MPI%204pager.pdf

Pakhtunkhwa. As per finance minister budget speech, this amount includes Rs 48 billion allocations from the federal government to the Rs 1 trillion 10-year development package for newly merged areas[2]. After the merger of FATA and PATA into Khyber Pakhtunkhwa, finance minister also extended exemptions for five years in respect of supplies to promote economic activity in the newly merged areas. Finance minister proposed in his budget speech to extend exemption to tax on import of industrial raw materials and plant and machinery. Additionally, exemption was also proposed for supply of electricity to all residential and commercial consumers and to industries set before 31st May 2018 excluding steel and ghee sector in these newly merged areas.

Before analyzing the budget allocation for the newly merged areas, we will review federal budget as it is the main source for the transfer of resources to the newly merged areas. Allocations to the newly merged areas and rest of the provinces largely depends on the tax and non-tax collection by the federal government. Allocations also depends on the trend in fiscal expenditure especially defense, debt servicing and salaries of the federal government employee. Historically any shortfall in federal tax revenues or overburdened federal expenditure on account increased current expenditure have an adverse impact on allocations for the development budget. Table 1 below gives budget estimates and revised estimates of the last three budgets of the federal government.

Table 1: Summary of Comparative Federal Budget Position 2017-18, 2018-19, 2019-20

Resources/Expenditures	Revised 2017-18	Budget 2018-19	Revised 2018-19	Budget 2019-20
A. Total Resources (I+II+III)	**4,774,566**	**4,917,163**	**5,062,796**	**7,899,078**
I. Net Internal Resources	3,544,812	3,799,139	3,659,640	4,716,753
(+)Gross Revenue Receipts	*4,992,486*	*5,660,505*	*5,031,628*	*6,716,624*
(+)Net Capital Receipts	*594,554*	*443,096*	*1,031,676*	*831,659*
(+)Provincial Surplus	*347,269*	*285,604*	*58,987*	*422,995*
(-)Provincial Share in Gross Revenue	*2,316,080*	*2,590,066*	*2,462,651*	*3,254,526*
II. External Resources	1,229,754	1,118,024	1,403,156	3,032,325
III. Privatization Proceeds	-	-	-	150,000
B. Total Expenditure (I+II)	**5,361,038**	**5,932,464**	**6,419,111**	**8,238,074**
I. Current Expenditure	4,298,279	4,780,359	5,589,431	7,288,179
II. Development Expenditure	1,062,759	1,152,105	829,680	949,895
a. PSDP	*750,000*	*800,000*	*500,000*	*701,000*
b. Outside PSDP	*153,174*	*180,238*	*162,929*	*85,791*
c. Grants & Loans to Provinces	*159,585*	*171,867*	*166,751*	*163,104*
C. Total Deficit (A-B)	**(586,472)**	**(1,015,301)**	**(1,356,315)**	**(338,996)**
Bank Borrowing	**586,472**	**1,015,302**	**1,356,315**	**338,996**

Source: Various issues of Annual Budget Statement of Finance Division, Government of Pakistan

On the revenue side, federal government is expecting to collect Rs7.9 trillion during 2019-20 which is 56% higher than the revised estimates of Rs5.1 trillion for the last fiscal year of 2018-19. Similarly, the gross revenue receipt for the year 2019-20 is estimated to be Rs6.7

[2] http://www.finance.gov.pk/budget/budget_speech_english_2019_20.pdf

trillion which is 33% more than the revised estimates of last fiscal year of 2018-19. These are very ambitious targets for tax and non-tax collection and if materialize then will benefit provinces and the newly merged areas due to increase availability of resources. Provincial revenue share in gross revenues (divisible pool taxes) are estimated to raise by 32% in fiscal year 2019-20 to Rs 3.3 trillion from Rs 2.5 trillion in the revised estimates of 2018-19. However, during the first five months of the current fiscal year, Federal Board of Revenue (FBR) is facing a massive shortfall of Rs 220.4 billion as it collected only Rs 1,608 billion as compared to the target of Rs 1,828.4 billion during July-Nov 2019[3]. This will have consequences on the transfers to provinces, as the transfers under the total federal divisible pool is expected to be lower than predicted if the tax targets of the federal government are not met. Similarly, transfers to the newly merged areas will also get a cut if the tax targets were not achieved.

On the expenditure side, the major chunk of the federal expenditure goes to the current expenditure, which constitutes mainly of debt servicing/interest payment, defense affairs and salaries of the federal government employees. There is a huge rise in the public expenditures, almost 73%, in last three fiscal years. In 2017-18, total public expenditures were Rs 5.36 trillion, which rose to 8.23 trillion in 2019-20. However, development spending has been reduced from Rs 1062.8 billion in 2017-18 to Rs 949.9 billion in 2019-20. The actual reduction in development budget is even more when accounts for the inflation effect.

Out of total expenditure of federal government in the budget for the year 2019-20, a total of Rs 151 billion was earmarked for the newly merged areas. Of this Rs 151 billion, Rs 79 billion is estimated to go to the current expenditure side of the NMAs while Rs 72 billion is earmarked for the development of the newly merged areas. The PSDP document for the year 2019-20 shows that out of these Rs 72 billion for the development budget of NMAs, Rs 48 billion were earmarked for the 10 year development plan for the newly merged areas while Rs 24 billion for the development of newly merged districts. This amount is however down from the Rs 100 billion per year amount, which was promised under the Rs 1 trillion 10-year development plan for erstwhile FATA.

The overall disbursement to the newly merged areas thus largely depends on the will of the federal government and the tax collection performance of the Federal Board of Revenue for the year 2019-20. There are signs of slower growth of Pakistan economy during fiscal year 2019-20 which may also adversely affect the tax collection potential of the federal government.

4. KP's Provincial Budget 2019-20 & the Newly Merged Areas

Presenting 2019-20 budget for the KP, the finance minister of the KP province starts with welcoming the people of newly merged areas into the province. This was possible due to passing of the 25th amendment bill, which was passed with consensus and thus led to the merger of erstwhile FATA into the province of Khyber Pakhtunkhwa. Acknowledging it as big challenge for the province and country as a whole, the finance minister commit his government to take care of the development needs of the people of the merged districts. Presenting headlines in his budget speech, the finance minister commit to spend Rs 162 billion in the merged districts out of which Rs 83 billion will be spent on the development budget in the merged districts. As per finance minister's budget speech, the overall amount for the newly merged areas is increased from Rs 55 billion to Rs 162 billion. Finance minister termed this as "historic package" for the newly merged tribal districts and announced that Rs 24 billion will be used to fund the creation of 17,000 new jobs with regularization of the levies and khasadars.

[3] https://www.thenews.com.pk/print/576229-fbr-facing-rs220-4-bn-revenue-shortfall-in-first-five-months

The remaining Rs 59 billion will be spent on the development projects in the merged districts[4]. Finance minister announced in his budget speech that both the federal government, and Khyber Pakhtunkhwa, fulfilled their commitments to pay their 3% divisible pool share for the development of the merged districts. However, this does not assure anything unless the appropriate forum approve it as per the rules and regulations under the new NFC award.

In the last part of his budget speech, the finance minister presented an outline of government strategy for the current and development expenditure in the newly merged districts during the fiscal year of 2019-20. It is mentioned that the primary aim of the spending is to prioritize an impact which directly impact the lives of the people as opposed to procurement of land or building offices. As per the budget speech, the primary focus of year 1-3 is to spend in the social sector; health; education; jobs; wealth creation – and on programmes that have rapid impact on the lives of people living in the merged districts. A second focus to be on improving infrastructure, and on projects with economic impact such as roads; electricity infrastructure. A third focus area is to allocate funds to the already planned early harvest projects, which are in the pipeline.

Table 2 below presents the projects with allocated budgeted amount as mentioned by finance minister of Khyber Pakhtunkhwa in his budget speech for the year 2019-20. As per the data in the budget speech, a total of 28 projects were proposed to be carried out in the newly merged districts of KP with a total allocation of Rs 3,017 million. It is important to mention here that these figures in the budget speech are only highlights of the total projects and some of the projects were not budgeted as per the data given in the budget speech.

Table 2: Highlights of Development Budget 2019-20 for the Merged Districts in Budget Speech

S.No	Project Name	Amount (in million)
A. Health Sector		
1	Provision of medicines and diagnostic materials for health facilities	80
2	Strengthening of DHQ Hospitals of Merged Areas	85
3	Mobile hospital programme in FATA	60
4	Removal of Staff Deficiencies in Newly Opened Areas in Health Facilities	30
5	Various vertical programs in tribal districts including. EPI, Hepatitis etc.	200
6	Provision of portable ultrasound facilities in existing health facilities in merged areas.	40
7	Establishment of Trauma Centers (level 2) and Accidents / Emergency Centers in all DHQ Hospitals of Merged Areas	130
8	Funding for establishment of Medical College in Kurram	
B. Education Sector		
1	Upgradation of Educational Institutions from primary to middle, middle to high or high to higher secondary schools in all tribal districts and former FR regions.	850
2	Standardization of exiting 21 HSS under Quick impact program.	500
3	Provision of Furniture Equipment in Functional Schools throughout the Tribal Districts.	280

[4] KP's Finance Minister Budget Speech for the year 2019-20 http://www.finance.gkp.pk/article/khyber-pakhtunkhwa-highlights-of-the-budget-speech-2019-20-english-version

Table 2: Highlights of Development Budget 2019-20 for the Merged Districts in Budget Speech		
S.No	**Project Name**	**Amount (in million)**
4	Introduction of Early Childhood Education in all Tribal Districts	46
5	Removal of Staff Deficiencies in Newly Opened Areas in Education, Tribal Districts.	40
6	Girls stipend program for KG & Class 1 in 02 District (To arrest drop outs & improve enrollment)	40
7	Provision of Facilities in Existing Primary Schools for Early Child Education (10 per Agency & 5 per FRs)	20
8	Award of inland scholarships to FATA students.	95
C. Sports & Tourism		
1	Provision of Sports Facilities/Grounds at Districts / Sub-Divisions in all Tribal Districts	59
2	Promotion of sports activities at Districts / Sub-Divisions in Tribal District	42
3	Economic Uplift of Youth Through Impact Challenge Program in tribal districts.	30
4	Beautification and promotion of potential Tourist Areas in tribal districts.	45
D. Energy		
1	Rehabilitation, Maintenance & repair of existing power supply lines and installation of new main lines and transformers in all tribal districts.	300
2	Solarization of mosques, schools and BHUs in all tribal districts.	
E. Improving Access to Road Infrastructure		
1	Construction of 54km Mirali-Shawa and Thall road	
2	Construction of Tunnel in North Waziristan	
3	Construction of Barang Tunnel to connect Bajaur with Swat expressway	
4	Construction of road and Blacktopping throughout all tribal districts.	
F. Developing Basic Service Facilities		
1	Establishment of General Public Parks in Khyber, to be spread across all tribal districts.	25
2	Fruit & Vegetable / Cattle Markets in All Merged Areas.	20
	Total	**3,017**
Source: 2019-20 Budget Speech, KP Finance Minister		

For a more detailed discussion on the resource allocation for the newly merged areas, we will analyze other budget documents of KP government for the year 2019-20.

KP's budget for the year 2019-20 is the first ever budget for a larger Pakhtunkhwa which includes the seven newly merged districts of the erstwhile FATA. As per the white paper of the budget 2019-20, total expenditure for the province is estimated to be Rs 855 billion which includes Rs 162 billion for the merged districts. The documents states that expenditure for the merged districts includes Rs 11 billion from KP's divisible pool resources while the rest will be coming from the federal government[5]. Table 2 gives the details on the basis of KP's white paper on budget 2019-20. KP white paper notes that budget for the merged areas is higher by 62% from the last year budget for the erstwhile FATA. It is important to note here that, historically, the actual federal transfers to provinces have consistently remained lower in comparison to

[5] Khyber Pakhtunkhwa White Paper for the year 2019-20 http://www.finance.gkp.pk/article/one-khyber-pakhtunkhwa-budget-2019-20-white-paper

budgeted figures due to lower levels of federal tax collection than the targeted figures. The impact is more stark in case of Khyber Pakhtunkhwa as almost 93% of its budget comes from the federal transfers and its own resource base is at the lowest.

Summary statistics presented in Table 3 shows the revenue and expenditure side of merged areas as presented in the overall budget of the province of Khyber Pakhtunkhwa in the white paper, annual budget statements and other budget documents of KP for budget year 2019-20. The overall revenue of the province is expected to be Rs900 billion which includes Rs151 billion for the merged areas. In addition to Rs151 billion from the federal government as grant to Khyber Pakhtunkhwa for merged areas, KP government also allocated Rs11 billion for the merged areas from its own provincial resources thus raising the total budget for merged areas to Rs162 billion. This constitutes around 18% of the total KP budget for the year 2019-20. The latest census figures of 2017 shows that merged areas population is about 14.1% of the total KP population.

Table 3: Summary of Receipts & Expenditure 2019-20 (Rs in million)

Head	2017-18 [Actuals]	2018-19 [Budget Estimates]	2018-19 [Revised Estimates]	2019-20 [Budget Estimates]
A. Revenues				
Settled Districts	**467,669.8**	**648,000.1**	**587,409.6**	**749,000.0**
Federal Transfers	363,477.6	426,095.5	404,031.0	533,261.5
Profit from Hydro Electricity (NHP)	41,554.4	65,277.9	54,491.8	55,674.9
Provincial Own Receipts	31,267.9	41,262.0	34,640.0	53,404.1
Other Receipts	16,134.4	44,264.7	37,615.4	24,659.5
Grants from Fed Govt to KP	2,277.9	-	2,192.5	-
Foreign Project Assistance	12,957.6	71,100.0	54,438.9	82,000.0
Merged Areas (MAs)/Districts	**-**	**-**	**-**	**151,000.0**
Grants from Fed Govt for Non-Development in MAs	-	-	-	79,000.0
Grants from Fed Govt for Development in MAs	-	-	-	72,000.0
Total Revenues	**467,669.8**	**648,000.1**	**587,409.6**	**900,000.00**
B. Expenditures				
Settled Districts	**472,699.5**	**618,000.0**	**587,409.5**	**693,000.0**
Current Revenue Expenditure	348,042.5	430,000.0	403,000.0	447,300.0
Capital Expenditures	7,291.2	8,000.0	8,810.0	9,700.0
Development Expenditures (ADP)	107,324.8	108,900.0	117,662.4	154,000.0
ADP Provincial	*96,989.2*	*79,555.0*	*88,317.4*	*108,000.0*
ADP District	*10,335.6*	*29,345.0*	*29,345.0*	*46,000.0*
Development Grants (PSDP Federal)	3,074.3		3,498.2	-
Foreign Project Assistance	6,966.7	71,100.0	54,438.9	82,000.0
Merged Areas (MAs)/Districts	**-**	**-**	**-**	**162,000.0**
Current Revenue Expenditure	-	-	-	79,000.0
ADP/10-Year Plan for Merged Areas	-	-	-	72,000.0
Provincial Contribution for Merged Areas	-	-	-	11,000.0
Total Expenditures	**472,699.5**	**618,000.0**	**587,409.5**	**855,000.0**
Deficit/Surplus	**(5,029.7)**	**30,000.1**	**0.1**	**45,000.00**

Source: KP White Paper 2019-20

After the passage of 25th constitutional amendment on 31st May, 2018, which merged erstwhile FATA into the province of Khyber Pakhtunkhwa (KP), KP government presented a first ever consolidated budget for the entire province including the newly merged areas. KP government successfully carried out the administrative merger by integrating all directorate of merged areas civil secretariat with respective administrative departments of KP. Similarly, financial integration has also been successfully achieved by presenting distinct yet integrated budget for the year 2019-20 for merged areas as part of government of Khyber Pakhtunkhwa budget. For example, the Annual Development Plan (ADP) for the merged areas with details of projects and costs was presented with the usual Khyber Pakhtunkhwa's Annual Development Plan (ADP) budget.

The white paper for the budget 2019-20 outlined the following achieved milestones by provincial government towards financial integration of the merged areas into the mainstream province of Khyber Pakhtunkhwa;

a. Financial inclusion strategy for merged areas
b. Proactive engagement of the federal government to provide alternative funding modalities till finalization of next NFC award
c. Management Information System (MIS) for the merged areas to track current and development spending in the merged areas
d. Establishment of district account, account IV, for all the 7 newly merged districts
e. Introducing inclusive, participatory, and needs based planning and budgeting model in the merged areas on the same model of Khyber Pakhtunkhwa

KP government also took the following specific measures for the development of merged areas;

a. To incentivize greater economic activity, exemption of merged areas from some of the taxes
b. Expansion of Sehat Insaf Card, a health insurance scheme, to all families of merged areas
c. Creation of 18,000 more posts in various sectors to strengthen judiciary, police, local government, and other allied social services
d. Levies and khasadars are converted to regular Police force
e. Pays and parks in merged areas were brought at par with the rest of KP

Introduction of high impact projects to spur economic growth through merged areas development strategy.

5. KP's Policy Documents & the Newly Merged Areas

In this section, we will briefly review policy documents of the KP government regarding its commitments of funds allocation for the development of the newly merged areas.

5.1 Sustainable Development Strategy & Merged Areas

Sustainable Development Strategy (SDS) for the year 2018-23 of the Government of Khyber Pakhtunkhwa highlights in its very beginning emphasized that both the federal and provincial government are ruled by same political party while the province too is being shifted from one PTI government to another. This, the strategy highlights, will ensure the continuity of polices in the province which will be getting full support from the federal government. This conducive and enabling environment to all the stakeholders will help in consolidation and continuity of political and governance reforms in the financial management of the province. SDS laid a special emphasis on the development planning and institutional development in the newly merged districts of Khyber Pakhtunkhwa which eyes key political reforms to be implemented and public investment made in the Newly Merged Area. The document highlights that mainstreaming the newly merged areas into Khyber Pakhunkhwa also pose key development and institutional challenges i.e. taxing the existing provincial government agencies with the additional work, the pangs of transition, and the additional investment for infrastructure and service delivery. However, it mentions that special initiatives of the federal government offers a unique opportunity to the province in terms of an additional Rs 100 billion development funds each year for the coming ten years. This will not only alleviate the socio economic condition of the people of the merged areas but will also boost the economy of the rest of the province by injecting huge additional money into different sectors.

SDS highlights the low levels of human development in the province by acknowledging that nearly half of the population in the province and 73 % of population in merged areas is impoverished in terms of education, health and living standards. As compared with 39 % for the whole of Pakistan, the strategy warrants more efforts for investment in human development in the province and its newly merged areas. Similarly, health indicators both for RoKP and Merged Areas are not very satisfactory. The maternal mortality ratio (MMR) for RoKP is estimated to be 206 per 100,000 live births and 395 per 100,000 for Merged Areas. The total fertility rate in RoKP is 4 and 5 for NMA; while it is 3.8 in Pakistan. The share of fully immunized children aged 12-23 months in RoKP is 40 % and 33.9% for NMA. Overall literacy rate in RoKP is 53% and 33.3% for Merged Areas; Net Enrolment Rate (NER) at primary level (age 6-10 years) in RoKP and NMA are 59% and 52.1% respectively. Similar gaps exist at the middle and matric levels[6]. The Sustainable Development Strategy aims at financing the socio-economic sector of the merged areas to spur economic growth in the whole province through multiplier effect.

To finance the SDS, KP government eyes a new NFC award based on new census and poverty figures while including merged areas in the NFC award. For the merged areas, the strategy document in its scenario no 3 based on interim arrangement expect Rs 107.5 billion for the merged areas with gradual increase in the next years. By fiscal year 2022-23, the strategy expects that the transfers for the merged areas from federal government will reach Rs 157.3 billion.

While newly merged areas are part of Sustainable Development Strategy for the period 2018-22 but it was treated separately in the document and not part of the main sectoral priorities of the province of Khyber Pakhtunkhwa. The strategy for Newly Merged Areas as outlined in the Sustainable Development Strategy is given below;

> For the NMAs, SDS approaches the medium term development planning on the model adopted in the TDS which is a long term multi-sectoral strategy specifically for those areas, to

[6] Sustainable Development Strategy (2018-23), Govt of Khyber Pakhtunkhwa

be funded from a special allocation of 3% of a non-fungible resources from the Federal Government through the P&DD and the line Departments of the Provincial Government. The strategy adopted by the line departments in the SDS for the rest of the Khyber Pakhtunkhwa will supplement and complement the TDS and vice versa. The detailed TDS forms part of the SDS as its annexure. The TDS sets five main themes for development socio-economic progress of the area to bring it at par with the rest of Pakistan.

Pillar 1: Building Responsive and Accountable Institutions

Pillar 2: Enhancing Human Potential

Pillar 3: Expanding Economic Infrastructure

Pillar 4: Enhancing Economic opportunities

Pillar 5: Instituting Sustainable Resource Management

While strategy for the settled districts of KP give detailed description of program for the coming 5 years with year-wise budget allocations for all sectors, the strategy for the newly merged areas lake clear outline. However, a separate policy document for the newly merged areas was prepared by the KP Government called Tribal Decade Strategy. An Accelerated Implementation Programme (AIP) for the first 3 years of the tribal decade starting with the year 2019-20 was adopted with the above five main pillars detailing the overall policy interventions with the financing arrangement.

5.2 Accelerated Implementation Programme

According to the Accelerated Implementation Programme (AIP) for the first 3 years of Tribal Development Strategy, if Pakistan decides to spend Rs.100 billion per year to bring human development and public services in the newly merged areas closer to the rest of Pakistan, it will only amount to 0.002 percent of GDP.

The lag in development in MA is a direct manifestation of chronic public underspending over the last 7 decades. Provinces with their meagre own-source revenue derive most of their funds from the fiscal transfers under the National Finance Commission awards. In the last decade, these transfers contributed to keep mean values of Rs. 13,261 per capita per annum public expenditures for Punjab, Rs. 16,489 in Sindh, Rs. 19,480 in Balochistan and Rs. 14,165 per capita in KP. FATA never enjoyed such mandated transfers and consequently the level of public expenditure in FATA remained at a mean value of Rs. 8,411 per capita that is manifestly low. This therefore shows that mean spending in the provinces under NFC transfers remained at levels well above FATA, in some cases twice the per capita spending in FATA. No wonder that schools and health facilities in FATA remained below par.

If the underfunding of FATA comes to Rs.377 billion in 2018 rupees over the last one decade alone, projected for the last 7 decades since independence, the total size of underfinancing of FATA comes to at least Rs.2,639 billion. All along, the residents of FATA have continued to bear a proportionate burden of the indirect taxes that in turn contribute 60 percent of total national revenue at the federal level. Only in recent years, FATA received Rs.50 billion of public expenditure per year in the previous decades. Given the accumulated lag in spending, the Merged Areas have missed almost 50 fiscal outlay, 50 fiscal years of development.

FATA merged in KP when the constitutional amendment passed on May 31, 2018. During the current fiscal year (2018-19), KP did not get its constitutional share in NFC transfers as the population, poverty related needs and thinly spread population of FATA have not been included in computing KP's share in transfers. The greatest question of national importance therefore today is how to right the wrong, and how quickly; and how soon to regain the lost 50 years of development for the people of FATA. Post 25th Constitutional Amendment, the Government of Khyber Pakhtunkhwa is mandated to carry out all the service delivery functions. It will use its efforts to mobilize adequate resources for implementation of the TDS and AIP, and deliver on the national commitments to the development of these areas.

Like the rest of Pakistan, the residents of the Merged Areas have a comparable claim on the national resources. Equal access to public services is the inviolable right of the citizens of Pakistan, irrespective of their place of residence. Access to service delivery is possible only through availability of fiscal resources. The TDS is the manifestation of the national commitment to the development of the MA. This commitment was indicated in the Federal Government announcement that 3% of the Divisible Pool under NFC shall be mandated for development expenditures in these areas. This commitment was also elucidated as at least Rs.100 billion per annum allocations for the purpose.

The MA are a new addition of people and area, responsibilities and development needs, and aspirations and national priorities assigned to the Government of KP. The constitutional requirement that spells out calculation of KP's share in NFC transfers with updated variables in the NFC formula will be addressed in the NFC. In addition to these sources of funds, the Federal Government has committed to continue financing development at the baseline level of FATA ADP. Government of KP envisages that this commitment to financing will continue from the Federal Government to address the historical lag in financing FATA. While seeking value for money and economy in implementing AIP, there remains a sizeable financing gap. This gap persists over time and would need to be bridged by additional resources during implementation.

A three-part strategy will be adopted to finance AIP. The first component emanates from the federal commitment to recover the historical lag in development. This will require a continued federal financing to fill the historical lag in financing development of FATA. The second component is to add synergies from existing provincial systems and save on costs. The third will comprise of resource mobilization to meet the required level of annual financing of development, systems building and service delivery in the MA.

The following figures indicate the medium and long-term resource requirements of AIP and TDS, respectively alongside available resources. The gap will be filled through additional resources.

Table 4: Fiscal Incidence in erstwhile FATA as compared with rest of Pakistan									
Years	Per Capita Expenditure (Rs.)							Population (P_t) (Rs)	Funding Gap (P_t*C_t)
	Punjab	KP	Sindh	Bal	Mean (A_t)	MA (B_t)	C_t=A_t-B_t		(Rs.)
2008-09	13,060	9,498	14,075	14,485	12,780	7,253	5,527	4,031,584	22,280,816,454
2009-10	11,144	11,128	13,958	14,624	12,713	7,522	5,191	4,128,866	21,434,598,860
2010-11	10,500	11,241	13,639	18,956	13,584	5,903	7,681	4,228,494	32,478,104,583
2011-12	10,750	13,309	15,528	18,849	14,609	7,141	7,468	4,330,527	32,339,134,521
2012-13	11,898	12,705	14,538	18,099	14,310	8,189	6,121	4,435,022	27,147,732,868
2013-14	11,730	13,155	14,677	18,286	14,462	8,264	6,198	4,542,038	28,151,158,344
2014-15	12,251	14,570	14,666	19,083	15,142	8,130	7,012	4,651,636	32,618,334,758
2015-16	13,960	15,163	19,137	21,051	17,328	8,888	8,440	4,763,879	40,205,184,107
2016-17	15,485	17,034	19,336	22,460	18,579	9,498	9,081	4,878,831	44,304,064,830
2017-18	16,861	18,376	20,442	23,673	19,838	10,623	9,215	4,996,556	46,044,884,958
2018-19	18,233	19,645	21,392	24,723	20,998	11,106	9,892	5,117,122	50,617,606,200
Total									**377,621,620,486**
Source: Accelerated Implementation Programme									

6. Tracking Budget of the Newly Merged Areas (NMAs) in KP's Budget

A summary of the overall budget allocation for the newly merged areas in the KP's budget is given table 5 below:

Table 5: Summary Statistics for NMAs in Budget 2019-20	
Head	**Budget Estimates (Rs in million)**
A. Total Current Expenditure (I+II)	**79,000**
Current Expenditure (I)	51,013
Salary	*23,000*
Non-Salary	*28,013*
Transfers to Local Governments (II)	27,987
Transfers to Local Councils	*718*
District Salary	*24,437*
District Non-Salary	*2,832*
B. Development Expenditure (III+IV)	**83,000**
ADP Provincial (III)	24,000
Merged Areas Strategy (IV)	59,000
Federal Contribution	*48,000*
Provincial Contribution	*11,000*
Total Expenditure (A+B)	**162,000**
Source: KP's Budget Documents 2019-20	

The overall budget allocations for the Newly Merged Areas (NMAs) in budget 2019-20 stands at Rs 162 billion. As described earlier, out the total amount, Rs 151 billion comes as transfers from the federal government while Rs 11 billion is contribution of the provincial government of Khyber Pakhtunkhwa to the development of newly merged areas. Out of total spending of Rs 162 billion, Rs 79 billion is allocated to the current expenditure which consists of salary and non-salary current expenses in the newly merged areas. Similarly, Rs 83 billion is estimated to be spent on the development side in the newly merged areas. Of this Rs 83 billion, Rs 72 billion is federal contribution while Rs 11 billion is provincial contribution. Federal government is contributing Rs 48 billion to the 10-year development plan of the newly merged areas while Rs 24 billion is allocated to the development of newly merged districts. This estimated amount, if spent, can contribute a lot to the development of the most backward region of Pakistan.

6.1 Tracking Current Expenditure of the Newly Merged Areas (NMAs)

Table 6 gives summary statistics of the current expenditure in the newly merged areas. The data is downloaded from the KP Finance department website on 30th November 2019 and gives an updated position as on **25th November 2019** which can be seen here [http://www.finance.gkp.pk/current-budget-utilization]. It shows a dismal performance in terms of budget releases and actual expenditure. Out of total budget allocation of Rs 79 billion, Rs 32.678 billion is released by the federal government which constitute around 41% of the total budget allocation. From the federal government side, this is quite a good performance in the first 5 months of the ongoing fiscal year. However, the actual spending position is quite dismal which means that the provincial government lack of capacity is a hindrance in actual utilization of the released budget. Only Rs 5.8 billion is being spent out of the total releases of Rs 32.678 billion which is just 18% of the total releases. This shows that KP's finance department has given low priority to the current needs of the newly merged areas.

Table 6: Current Budget in Newly Merged Areas [Budget Estimates, Budget Releases & Actual Expenditure] (Rs in Million)

Sector	2019-20		
	Budget Estimates	Budget Release	Budget Expenditure
State Trading in Food, Grains & Sugar	17.3	17.0	2.1
General Administration	549.2	374.1	43.4
Treasuries	60.3	60.6	11.2
Finance Department	8,085.0	481.9	9.9
Planning & Development Department	53.3	48.1	6.8
Bureau Of Statistics	8.9	8.6	0.7
Revenue & Estate Department	2.9	267.8	221.8
Home Department	67.3	63.4	2.6
Jails & Convicts Settlement	12.6	12.6	-
Administration Of Justice	851.3	789.5	97.4
Higher Education, Archives & Libraries	2,101.0	2,084.4	388.7
Health	1,533.4	1,495.4	323.2
Communication And Works Department	1,153.7	1,140.5	254.0

Table 6: Current Budget in Newly Merged Areas [Budget Estimates, Budget Releases & Actual Expenditure] (Rs in Million)			
Sector	**2019-20**		
	Budget Estimates	**Budget Release**	**Budget Expenditure**
Roads Highways & Bridges (Repair)	181.9	-	-
Building & Structure (Repair)	148.5	0.4	4.2
Public Health Engineering	975.4	948.5	241.0
Local Government Department	187.0	173.9	2.7
Agriculture	93.4	91.4	16.2
Animal Husbandry	46.9	42.2	6.6
Forestry (Wildlife)	338.7	326.9	83.3
Fisheries	20.9	20.4	4.5
Irrigation	149.2	143.9	23.2
Mineral Development	57.2	55.3	5.5
Technical Education And Manpower	196.0	188.9	36.4
Social Welfare, Special Education	9.8	8.8	0.5
Zakat & Usher Department	26.1	23.5	2.1
Sports, Culture, Tourism & Museums	13.1	12.7	1.1
Elementary And Secondary Education	90.4	86.2	14.5
Relief Rehabilitation And Settlement	17,107.3	112.3	7.5
District Salary	24,436.8	6,109.2	-
District Non Salary	2,832.2	1,401.0	1,179.2
Police (Levies)	16,877.2	16,089.4	2,869.2
Grant To Local Councils	717.6	-	-
Total	**79,002.0**	**32,678.8**	**5,859.7**
Source: Downloaded from http://www.finance.gkp.pk/ on 29th November, 2019			

6.2 Tracking Development Expenditure of the Newly Merged Areas (NMAs)

For the first time since the passage of 25th constitutional amendment and making erstwhile FATA part of the province of Khyber Pakhtunkhwa, the newly merged areas were included in the Annual Development Program (ADP) of the province of Khyber Pakhtunkhwa. KP's ADP for the year 2019-20 consists of two parts. In the first part, it list sector-wise projects with cost estimates for the settled districts of Khyber Pakhtunkhwa while the second part list sector-wise projects for the newly merged areas. Table 7 below present the summary position of budget estimates, budget releases and actual expenditure with respect to development budget in the newly merged areas for the year 2019-20. The data was retrieved online from the KP government finance department website on 30th November which gives the actual position as on **25th November 2019** meaning a position of first 5 months. The data can be accessed from the following link http://www.finance.gkp.pk/development-budget-utilization.

The data given on the KP's finance website shows that around Rs 81.3 billion is earmarked for development of the newly merged areas as against the Rs 83 billion shown in the original budget documents released in June 2019. A total of 1,119 development projects were identified for the newly merged areas which consists of 884 ongoing projects while the rest as new projects. As per KP's government finance department website, total budget releases as on 25th November came to the tune of Rs 8.4 billion which is just 10% of the total development budget for the newly merged areas. The releases shown on the website of federal government shows that a total of Rs 12.782 billion is being released as on 22nd November 2019 from the federal government for the newly merged areas. This amount is Rs 4.4 billion more than the budget releases shown on the KP's finance department website. This means that there is a lag in the releases from the federal government to the KP government. As explained by KP's finance minister in his twitter interaction[7] regarding a story published in the Express Tribune on October 12th 2019[8], the amount actually released by federal government reached KP government with a lag.

However, the more worrying scenario is the lack of capacity to utilized the released amount as only Rs 1.3 billion were actual spent from the KP's figure for released amount of Rs 8.45 billion. KP finance department has to properly own the newly merged areas and follow the policy guidelines it sets for itself in various policy documents of its own government.

Table 7: Development Budget in Newly Merged Areas 2019-20 [Estimates, Releases & Actual Expenditure] (Rs in Million)

Sector	Number of Projects			Budget Estimates			As on 25th Nov, 2019	
	Ongoing	New	Total	Ongoing	New	Total	Budget Releases	Actual Expenditure
Agriculture	97	10	107	1,109.6	211.8	1,321.4	193.9	44.3
Auqaf, Hajj & Minority Affairs	-	3	3	-	19.7	19.7	-	-
Board of Revenue	1	-	1	10.0	-	10.0	-	-
Building	68	2	70	1,724.7	54.0	1,778.7	442.8	141.1
Drinking Water & Sanitation	74	6	80	863.5	166.1	1,029.6	224.0	168.9
Elementary & Secondary Education	133	6	139	3,286.5	443.1	3,729.6	600.1	115.0
Energy & Power	11	1	12	520.0	14.8	534.7	102.4	-
Environment	1	-	1	44.4	-	44.4	11.3	-
Excise & Taxation	-	3	3	-	9.8	9.8	-	-
Finance	1	-	1	10.0	-	10.0	3.0	-
Food	-	2	2	-	20.0	20.0	-	-
Forestry	58	14	72	693.6	65.8	759.4	126.2	15.1
Health	69	7	76	1,404.0	175.5	1,579.5	275.6	84.5
Higher Education	13	5	18	322.2	170.1	492.3	54.4	16.6
Home	3	2	5	56.8	18.3	75.2	7.8	0.3
Industries	1	4	5	13.0	30.0	43.0	3.3	-

[7] https://twitter.com/Jhagra/status/1182971469422383105
[8] https://tribune.com.pk/story/2077741/1-development-spending-shrinks-k-ps-nmds/

Table 7: Development Budget in Newly Merged Areas 2019-20 [Estimates, Releases & Actual Expenditure] (Rs in Million)								
Sector	**Number of Projects**			**Budget Estimates**			**As on 25th Nov, 2019**	
	Ongoing	**New**	**Total**	**Ongoing**	**New**	**Total**	**Budget Releases**	**Actual Expenditure**
Information	1	1	2	5.0	-	5.0	1.3	-
Labour	-	2	2	-	4.9	4.9	-	-
Law and Justice	-	1	1	-	39.1	39.1	-	-
Local Government	40	15	55	520.2	96.7	616.9	126.0	21.4
Mines & Minerals	-	1	1	-	19.7	19.7	-	-
Multi Sectoral Development	43	2	45	1,024.2	31.4	1,055.6	238.5	50.0
Population Welfare	-	1	1	-	4.9	4.9	-	-
Relief & Rehabilitation	2	1	3	20.0	64.0	84.0	5.1	1.8
Roads	131	16	147	3,380.4	562.3	3,942.7	706.8	441.9
Social Welfare	16	1	17	60.6	-	60.6	19.5	5.2
Special Initiatives	1	-	1	40.0	-	40.0	10.2	10.2
Sports & Tourism	42	8	50	520.3	17.3	537.6	119.0	20.1
ST & IT	-	5	5	-	19.7	19.7	-	-
Transport	-	1	1	-	141.7	141.7	-	-
Urban Development	21	9	30	200.0	2.6	202.6	25.9	11.0
Water	57	5	62	1,029.6	-	1,029.6	224.0	168.9
Total	884	134	1,018	16,858.6	2,403.4	19,262.0	3,520.9	1,316.3
Merged Areas Development Authority			101			3,060.0	490.3	-
Tribal Decade Strategy						59,000.0	4,443.5	-
Grant Total			1,119			**81,322.0**	**8,454.7**	**1,316.3**
Source: Downloaded from http://www.finance.gkp.pk/ on 29th November, 2019								

7. Federal PSDP & Authorization for the Merged Areas

Federal government expenditure budget is divided into current expenditure and development expenditure. While current expenditure is being managed and its data is reported by the federal ministry of Finance, the development budget is spent and reported through Planning, Development and Reforms ministry. In 2019-20 federal Public Sector Development Program (PSDP), Rs 72 billion were earmarked for the merged areas under two heads. These heads are Merged Areas 10 Years Development Plan and PSDP for Merged Districts of Khyber Pakhtunkhwa. Total PSDP for the year 2019-20 was budgeted at Rs 701 billion including Foreign Aid of Rs 128.293 billion. Planning commission of Pakistan weekly reports an updated position of these actual authorization which are being reproduced in the table 8 below[9].

[9] https://www.pc.gov.pk/web/archive/getdata/6

Table 8: Merged Areas vs Rest of Pakistan: Total PSDP Budget & Weekly cumulative PSDP Authorization 2019-20								
Budget Estimates & Status of Authorization As on	Total PSDP Budget & Authorization			Authorization as % of Total Budget	Merged Areas PSDP Budget & Authorization			Authorization as % of Total Budget
	Local	Foreign Aid	Total		Local	Foreign Aid	Total	
Budget Estimates	572,707.5	128,292.5	701,000.0		70,730.3	1,269.7	72,000.0	
Weekly Status of Authorization of PSDP As On								
09-08-2019	15,414.5	-	15,414.5	2%	-	-	-	0%
23-08-2019	50,449.9	-	50,449.9	7%	-	-	-	0%
30-08-2019	51,110.6	-	51,110.6	7%	-	-	-	0%
06-09-2019	60,262.3	9,526.0	69,788.3	10%	-	-	-	0%
13-09-2019	74,787.9	9,654.4	84,442.4	12%	12,000.0	-	12,000.0	17%
20-09-2019	75,954.3	14,646.6	90,600.9	13%	12,000.0	-	12,000.0	17%
27-09-2019	88,288.4	14,646.6	102,935.0	15%	12,000.0	-	12,000.0	17%
04-10-2019	123,352.1	9,654.4	133,006.5	19%	12,000.0	-	12,000.0	17%
11-10-2019	129,649.9	30,936.9	160,586.8	23%	12,000.0	343.0	12,343.0	17%
18-10-2019	203,554.7	30,936.9	234,491.6	33%	12,000.0	343.0	12,343.0	17%
25-10-2019	203,563.9	53,623.5	257,187.4	37%	12,000.0	782.9	12,782.9	18%
01-11-2019	203,563.9	53,623.5	257,187.4	37%	12,000.0	782.9	12,782.9	18%
08-11-2019	203,833.1	53,623.5	257,456.6	37%	12,000.0	782.9	12,782.9	18%
15-11-2019	235,512.8	53,623.5	289,136.3	41%	12,000.0	782.9	12,782.9	18%
22-11-2019	235,532.7	53,623.5	289,156.2	41%	12,000.0	782.9	12,782.9	18%
Source: www.pc.gov.pk [https://www.pc.gov.pk/web/archive/getdata/6]								

The data in table 8 reveals that the investment authorization of the PSDP in the merged area is slower than the rest of Pakistan. The latest report released for the week ended on 22nd November, 2019 shows that while 41% of the PSDP funds were release for the rest of Pakistan, only 18% of the funds were released for the newly merged areas. This seriously affect the development planning for the merged areas and the on-going and new development projects will be delayed due to non-payments of the funds. Provincial government of Khyber Pakhtunkhwa has very little own resources and only timely release of these funds by federal government can really fulfil timely development needs in the newly merged areas. Almost 5 months into the current fiscal year and only 18% releases of the total PSDP budget for merged areas is a dismal situation to implement policy objectives in the newly merged areas.

In the previous year 2018-19 PSDP of federal government, a total of Rs 10 billion were release for 10-year socio-economic development plan of erstwhile FATA.[10] Besides these special packages for erstwhile FATA, now the newly merged districts, very little money flow towards the region from the regular PSDP of the federal government.

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[10] https://www.pc.gov.pk/uploads/archives/Releases_Summary_2018-19(30-06-19).pdf

Federal Public Sector Development Programs (PSDPs) is the development budget of the federal government, which is approved by the National Economic Council (NEC). As per article 156 of the Constitution of Pakistan11, Prime Minister is the chairperson of the NEC with four Chief Ministers as members. Each Chief Minister of the province also nominate one member each with 4 other members nominated by the PM. FATA woes started from here where it has no member in the NEC as per constitution. The objective of the NEC is described in the following sub-clause of the Article 15612.

> 156 (2): The National Economic Council shall review the overall condition of the country and shall, for advising the Federal Government and the Provincial Governments, formulate plans in respect of financial, commercial, social and economic policies; and in formulating such plans it shall, amongst other factors, ensure balanced development and regional equity and shall also be guided by the Principles of Policy set out in Chapter 2 of Part-II.

The constitutional article defining role for NEC clearly mention to 'ensure balanced development and regional equity guided by the Principles of Policy' as set out in Chapter 2 of Part II of the constitution. Federal government in its PSDP documents lists all development projects with federal funding allocations. PSDP, is then, placed for approval from the parliament with other federal government budget components. The financing of projects is based on the division of subjects between Provincial and Federal Governments in the post 18th Amendment scenario. While provinces has now increased Annual Development Plan (ADP) funding after 7th NFC award, the region of erstwhile FATA is still stuck in the arbitrary block allocations. To analyze, how the NEC stick to its objective of 'balanced development and regional equity', we track projects related to erstwhile FATA in last 10 years of PSDP allocations presented below in table 4[13].

Figures in Table 9 are derived from last 10 year PSDP documents (2009-10 to 2018-19) available online at the Planning Commission of Pakistan website[14]. The table excludes erstwhile FATA's one-liner block allocation and the budget for TDPs/ Security enhancement in erstwhile FATA[15] as the current analysis is focused only on the main projects in PSDP across Pakistan. We treated the one-liner budget as federal transfer to the erstwhile FATA in the same way like when provinces get resources from the Federal divisible pool taxes which the provinces spent through their own governments. These projects in PSDP pertains to around 40 federal ministries/divisions, 2 corporations, and other special development programs managed from the PM Secretariat. Each year PSDP consists of some 1000 projects (both on-going and new ones), on average, spreading across different ministries/divisions. The process is such that each individual ministry/corporation comes up with project proposals and gets its approval from the Planning Commission of Pakistan and National Economic Council. One type of projects spread across Pakistan (like National TB Control Program) while other type of projects are in concentrated in only one province/region (like Construction of a university in Lahore). Utmost care is being taken in the construction of the above table with the objective to isolate projects concentrated in erstwhile FATA from rest of the projects. There are projects, which are

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[11] http://www.pakistani.org/pakistan/constitution/part5.ch3.html

[12] http://www.pakistani.org/pakistan/constitution/part5.ch3.html

[13] All these different PSDP documents can be downloaded from the planning commission of Pakistan website http://www.pc.gov.pk/

[14] www.pc.gov.pk

[15] We will separately analyze pattern and trends in FATA's Block Allocations for development.

concentrated in Islamabad like capacity building of a particular ministry/division, which may have positive spill-over effects across the country including the now merged districts. As it is difficult to disentangle its effects on FATA, these projects were not analyzed. However, a big number of projects are such that which can be easily bifurcated into region-wise.

Table 9 shows that over the last 10 years, an average of only 1.15% of total PSDP allocations went to erstwhile FATA region. FATA constituting some 2.4% of the total population of Pakistan as per 2017 census, receives less than what it deserves. This is despite the fact that clear principles of policy were mentioned in the Constitution of Pakistan that special focus will be given to underdeveloped and backward regions. Instead this is further investing government federal funds into creating more inequality and backwardness. Looking at the details, most of the projects in FATA are either related to the security or to power generation. Over the last 10 years, a total allocations of around Rs 60 billion were made to FATA in PSDPs, out of which around 82% went to these two sectors. Power generation in FATA has no direct benefits to the people in FATA as the region is engulfed in 18 hours load-shedding in summer as per recent official reports[16]. While other electricity generating provinces were granted royalty, erstwhile FATA is denied as per FATA secretariat position paper on revenue sharing for erstwhile FATA[17].

Sector-wise analysis show the true extent of neglect of FATA in federal PSDP allocations. Over the last 10 years, for example, a total combined amount of Rs 184.608 billion[18] were allocated to Higher Education Commission (HEC) of Pakistan for promotion of higher education in the country. Out of this, FATA were allocated a meagre amount of Rs 1.315 billion over the last 10 years. On top of that, of these allocations only a little amount is released to the higher education sector in FATA. Establishment of FATA University appears in every year PSDP documents relating to HEC Sector since 2012-13, but the release to the same project as on June, 2019 is only Rs 585 million. This shows the extent of erstwhile FATA's neglect in PSDP which can be seen in other important sectors such as Industries, Roads, Railways, Commerce, Trade, Health, Education etc.

Table 9: Share of FATA in Federal PSDP excluding Block Grants, TDPs & Special Security (Rs in Million)

Sectors	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Primary & Secondary Education	31	107	40	78	74	42	73	20	33	17
Higher Education	69	168	50	123	135	30	300	290	350	400
Social Welfare & Poverty Alleviation	16	41								
Population Welfare	50	35	35	35	79	79	79	79	76	78
Security	213	134	169	18	12	191	1,130	1,762	2,500	2,904
Energy and Power Transmission	2,260	2,614	1,380	1,986	5,090	4,310	1,700	1,540	2,345	17,000

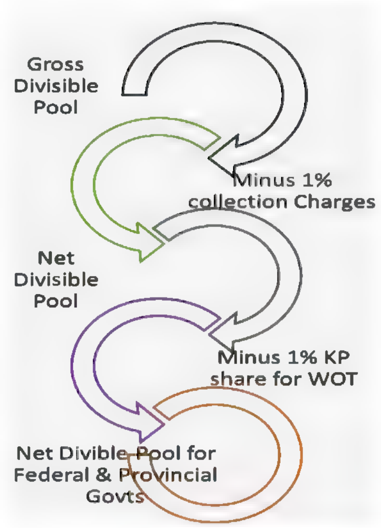
16 https://www.dawn.com/news/1331349/pml-n-follows-ppp-example-looks-for-mobile-and-rental-power-plants
17 Page 16 Revenue Sharing for FATA-A case for Fair and Symmetric Application of Equalization Scheme
18 Author aggregations based on various PSDP documents available at Planning Commission of Pakistan website

Table 9: Share of FATA in Federal PSDP excluding Block Grants, TDPs & Special Security (Rs in Million)										
Sectors	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Area Development Programs	163	122	52	52	58	122	140	311	241	111
Roads	5	165					600	1,200		
Agri, Livestock, Forest & Irrigation Dev		206				7	43			
General Development						4,000				
Taxation						4				
Trade Development	3	2								
Community Development	19									
Water Supply	5									
FATA 10-Year Development Plan										10,000
FATA Total share in PSDP	**2,833**	**3,593**	**1,726**	**2,291**	**5,448**	**8,784**	**4,065**	**5,201**	**5,545**	**20,510**
Total Federal PSDP Excluding TDP & Security	**433,140**	**281,769**	**290,000**	**344,000**	**521,500**	**506,000**	**581,000**	**679,000**	**733,563**	**620,283**
FATA's share in Percentage	**0.65%**	**1.28%**	**0.60%**	**0.67%**	**1.04%**	**1.74%**	**0.70%**	**0.77%**	**0.76%**	**3.31%**
Source: Various of PSDP releases documents downloaded from www.pc.gov.pk										

8. New NFC Award & Inclusion of the Newly Merged Areas in resource distribution

8.1: The Issue and Need Assessment

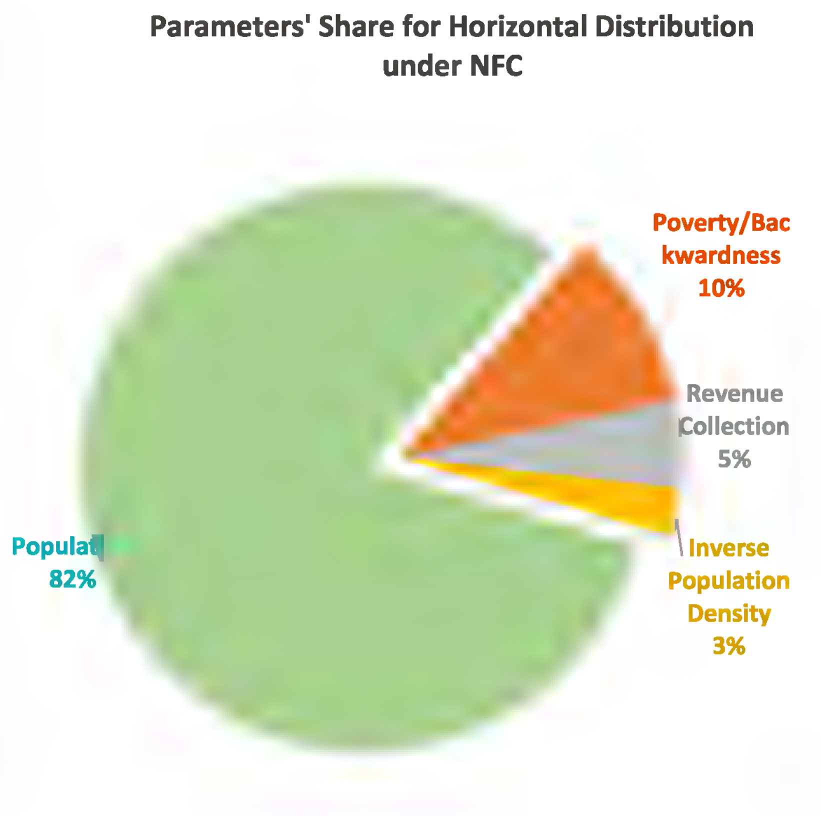
Different policy documents of the KP government has proposed allocation of 3% share in National Finance Commission (NFC) Award for implementation of 10-year Socio-Economic Development Plan for the newly merged areas. For a longer term of vision of the development of the newly merged areas, the region need mainstreaming with a proper share in the NFC Award as per the NFC formulae. This section is built on the case presented by former FATA Secretariat in its Position Paper on ‘Revenue Sharing for FATA- A Case for Fair and Symmetric of Equalization Scheme’, in June 2016. The said position paper calls for computation of FATA’s resource allocation based on equalization scheme, replacing the age-old



discretionary basis of allocation[19]:

> "The discussion presents a compelling case of computation of FATA's resource allocation on the basis of the equalization scheme, replacing the age old discretionary basis of allocation. The historic discretionary basis of allocations is discriminatory, defies equalization and is out of sync with the policy priority the government accords FATA and development in FATA. As demonstrated below, the case for a fair application of the equalization scheme to revenue sharing arrangements for FATA arise out of principles of equity, regional parity in development as well as the nature of fiscal arrangements of Pakistan".

However, the position paper has come up with derived share for erstwhile FATA under NFC based on some hypothesis or assumptions. The current section is going to go a step further and will calculate the actual percentage share of newly merged areas in any future NFC. The analysis is based on the formulae adopted in the last NFC Award namely 7th NFC Award which is still in vogue.



The 7th National Finance Commission (NFC) Award was implemented through President's Order No 5 of 2010 and amended in 2015 as President's Order No 620. The 8th NFC Award was constituted on 21st July, 2010, but was not finalized. The 9th NFC was constituted on April 24, 2015 but it too yet not able to decide the Award. So the 7th NFC Award was expired on June 30, 2015 but is to remain effective through presidential extension till today.

The NFC secretariat lay out the detail methodology of horizontal and vertical distribution of divisible pool taxes in its report of NFC 2009, released on 30th December, 2009[21]. According to the report, a Net Divisible Pool of taxes was created after deducting cost of collection from the Gross Divisible Pool Taxes. One percent (1%) of the net proceeds of divisible pool taxes were assigned to Government of Khyber Pakhtunkhwa to meet the expenses on the War on Terror. The remaining amount of the net divisible pool taxes were allocated to the federal government and provinces.

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[19] For the detail discussion see FATA's Secretariat Position Paper titled 'Revenue Sharing for FATA- A Case for Fair and Symmetric of Equalization Scheme' published in June, 2016. Download Link https://fata.gov.pk/cp/uploads/publications/14799761625836a048af423.pdf

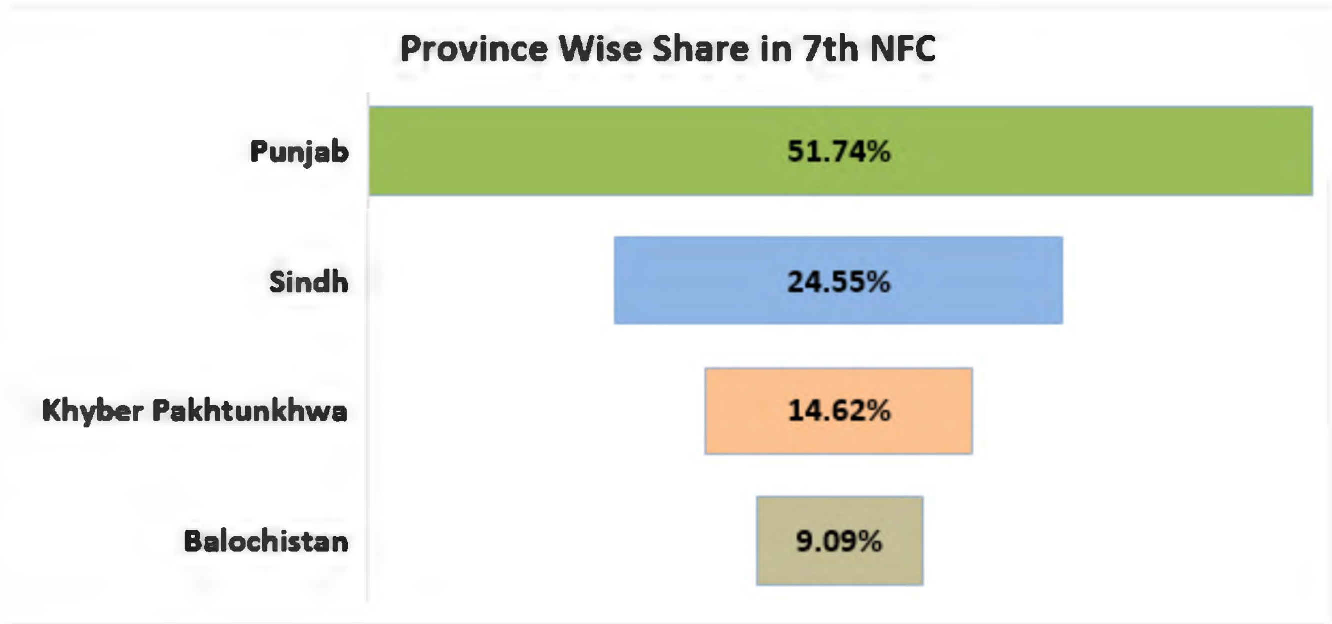
[20] 7th NFC Award http://www.finance.gov.pk/nfc/presidential_order_5_2010.pdf

[21] Report of the National Finance Commission, 2009 http://www.finance.gov.pk/nfc/reportofthenfc_2009.pdf

In vertical distribution of resources between provinces and the federal government, the 7th NFC Award increased the provincial share to 56% in 2010-11 from 45% in 2009-10 and further increased to 57.5 % from 2011-12 onward. The share of federal government thus shrinked from 55% in 2009-10 to 44% in 2010-11 and further reduced to 42.5% from 2011-12 onward. It was also decided in article 160 (3A) of the constitution that the share of the Provinces in each successive Award of NFC shall not be less than the share given to the Provinces in the previous Award.

In horizontal distribution, the increased share of 57.5% for provinces from 2011-12 onward was distributed among provinces on the basis of multiple indicators, where 82% is distributed on the basis of population, 10.3% on the basis of poverty or backwardness, 5% on revenue collection or generation and 2.7% on inverse population density. It was for the first time that sole criteria of population was discarded and multiple indicators regarding poverty, backwardness, and inverse population density were included.

Based on the new formula for the horizontal distribution among the provinces, the respective provincial shares were derived as given in the chart below:



8.2: The Goals & NFC Share Calculation for FATA

The main goal regarding NFC is to include newly merged areas as a constituent part of the NFC Award Formula. This is mainly a policy level decision, which needs to be taken up by KP government with the federal government. We will try to come up with an estimated value in this section based on the previous NFC award.

Population: We will take new population figures which is being taken from the new census which was completed in 2017.

Poverty: Ministry of Planning, Development and Reforms and UNDP Pakistan jointly published Multidimensional Poverty Index figures 2014-15. World Bank Pakistan also came up with poverty figures but it is only available for national level with rural/urban classification. During calculations of 7th NFC award, an average of three (3) different poverty figures were used which include: a) poverty figures derived from Household and Income Expenditure Survey (HIES) 1998 b) poverty figures in Pakistan National Human Development Report 2003 published by UNDP and c) poverty figures by FBS based on 2008 survey. For ease, latest MPI poverty figures has been used to calculate NMAs' share in NFC.

Inverse population density, (IPD): For calculating IPD, 2017 census figures have been used.

Revenue collection/generation:, As there are no figures available the newly merged areas, so will approximate its share by taking as half of Balochistan province figure[22].

By plugging in data for the above variables in the NFC's horizontal multiple indicator criteria, NFC shares for the four (4) provinces and the newly merged areas are derived.

As per 7th NFC Award, 82% of the resources among provinces will be distributed according to regional/provincial share in total population. Table 10 below gives regional shares of population with and without NMAs. NMAs share in total population as per 1998 census comes to 2.41% of the total and thus FATA will be getting 2.41% of the 82% total. These shares can be replaced with Census 2017 figures once the figures of the new census are out.

Table 10: Province/Region wise Population and its share in NFC with & without NMAs

Province/Region	7th NFC Award Shares without NMAs		7th NFC Award Shares with NMAs	
	Population 1998	Share for NFC (%)	Population 2017	Share for NFC (%)
Punjab	73,621,290	57.35	110,012,442	53.5
Sindh	30,439,893	23.71	47,886,051	23.3
KP	17,743,645	13.82	30,523,371	14.8
Balochistan	6,565,885	5.11	12,344,408	6.0
NMAs	-	-	5,001,676	2.4
Total	**128,370,713**	**100**	**205,767,948**	**100**

As per 7th NFC Award, 2.7% of the provincial resources of the divisible pool taxes has to distributed through inverse population density of the province/region. Table 11 below gives regional shares in NFC based on the inverse population density which are reported both for region without NMAs and with NMAs. As per the calculations based on the NFC formulae,

[22] Page 36, Report of the National Finance Commission 2009, National Finance Commission Secretariat, Government of Pakistan http://www.finance.gov.pk/nfc/reportofthenfc_2009.pdf

NMAs will be getting 13.3% of the 2.7% resources, which will be distributed based on inverse population density.

Table 11: Inverse Population Density and its share in NFC with & without NMAs								
Province /Region	7th NFC Award Shares without NMAs				7th NFC Award Shares with NMAs			
	Population 1998	Area 1998	Inverse Population Density	Share for NFC (%)	Population 2017	Area 2017	Inverse Population Density	Share for NFC (%)
Punjab	73,621,290	205,345	0.003	4.32	110,012,442	205,345	0.002	4.6
Sindh	30,439,893	140,914	0.005	7.18	47,886,051	140,914	0.003	7.2
KP	17,743,645	74,521	0.004	6.51	30,523,371	74,521	0.002	6.0
Balochistan	6,565,885	347,190	0.053	81.99	12,344,408	347,190	0.028	68.9
NMAs	-	-	-	-	5,001,676	27,220	0.005	13.3
Total	128,370,713		0.064	100	**205,767,948**		0.073	100.00

Table 12 reports shares in NFC on the basis of revenue collection/generation of the region. In the absence of actual revenue collection/generation of NMAs, it's share has been calculated arbitrarily by keeping it to half of that of Baluchistan's share. When the actual calculation for NMAs share in NFC will be carried out, exact values should be utilized. However, per our arbitrary number, 0.4% of the resources out of 5% will go to NMAs if the region is included in the NFC Award.

Table 12: Revenue Collection/Generation and its share in NFC with & without FATA		
Province/Region	Revenue Collection/ Generation without FATA	Revenue Collection/ Generation with FATA
Punjab	44	43.9
Sindh	50	49.9
KP	5	4.9
Balochistan	1	0.9
FATA	-	0.4
Total	100	100

Table 13 reports the poverty shares of provinces/regions, which are calculated as per 7th NFC Award. Latest figures of regional/provincial poverty, which are owned by UNDP and Planning Commission of Pakistan, are available and thus are used in deriving shares in the NFC for different provinces/regions. As per these calculations, if NMAs is included in NFC award and UNDP figures are used to derive regional shares, NMAs will get 27.44% shares in the 10.3% shares allocated based on poverty in the NFC.

Table 13: Poverty and its share in NFC with & without NMAs			
Province/Region	Poverty ratio as per 7th NFC Award without NMAs	Poverty ratios as per UNDP 2014-15 with NMAs	
		Poverty	Poverty converting to ratios in NFC
Punjab	23.2	31.4	11.69
Sindh	23.4	43.1	16.05
KP	27.8	49.2	18.32
Balochistan	25.6	71.2	26.51
NMAs	-	73.7	27.44
Total	100	269	100

Table 14 below combined all these multiple indicators with their respective weights to calculate the final shares of four provinces and NMAs in the NFC Award. The indicators used in the analysis from the 2009 NFC Award with the exception of poverty which is based on 2014-15 figures derived by UNDP in its multidimensional poverty index published in June, 2016.

Table 14: Final Shares of provinces/regions based on NFC multiple indicators Criteria					
Province/Region	a. Population (82%)	b. Poverty/Backwardness (10.3%)	c. Revenue Generation/Collection (5%)	d. Inverse Population Density (2.7%)	FINAL Shares of Provinces/Regions in NFC
Panel A: Provincial percentages in the 4-indicators multiple indicator criteria					
Punjab	53.5	11.69	43.90	4.6	
Sindh	23.3	16.05	49.90	7.2	
KP	14.8	18.32	4.90	6.0	
Balochistan	6.0	26.51	0.90	68.9	
FATA	2.4	27.44	0.40	13.3	
Total	**100**	**100**	**100**	**100**	
Share (in %) of each Category as per NFC	**82**	**10.3**	**5**	**2.7**	
Panel B: Shares in NFC as per provincial percentages in the 4-indicators multiple indicator criteria					
Punjab	43.84	1.20	2.20	0.12	**47.36**
Sindh	19.08	1.65	2.50	0.19	**23.43**
KP	12.16	1.89	0.25	0.16	**14.46**
Balochistan	4.92	2.73	0.05	1.86	**9.56**
FATA	1.99	2.83	0.02	0.36	**5.20**
Total	**82**	**10.3**	**5**	**2.7**	**100.0**

So on the basis of the latest available poverty figures and the NFC horizontal distribution formulae, NMAs share comes to 5.2% share in the NFC Award (See Chart Below). Shares of the four provinces thus reduced from the 7th NFC award shares by including NMAs as an NFC constituent. In the recently announced budget for the fiscal year 2019-20, the share of NMAs as per the proposed NFC is estimated to be around Rs 164 billion as the total divisible pool taxes for the year 2019-20 is estimated to be Rs 3,153.8 billion.

9. Conclusions & Policy Recommendations

- Federal Government has committed Rs152 billion for the newly merged areas in its budget for the year 2019-20. There are chances that Federal government may not achieve its revenue targets for the fiscal year. KP government should make a plea to the federal government to not reduce the committed amount for the newly merged areas as it will stall the much needed development in the most backward region of Pakistan. Precedence for such a plea exist when during 7th NFC award, Federal government promised to not reduce the resource transfers commitment to Balochistan province even if revenue targets were not achieved.
- While the 10-year socio-economic development plan promised a commitment of Rs100 billion for the development of the newly merged areas, the region got only Rs 72 billion in the budget for the year of 2019-20. KP government should stress federal government to fill the gap in the next year by increasing the allocation by Rs 28 billion for the development of newly merged areas.
- KP government budget for the year 2019-20 did include the emphasis on the development projects completion in the newly merged areas and did commit an extra Rs11 billion from its own sources but the government failed to properly allocate the budget to the ongoing or new projects. For example, Tribal Decade Strategy was included in the Annual Development Plan (ADP) as a lump sum amount with no project specification in the ADP for the year 2019-20. This will impact the actual spending and will be very hard to monitored by the public representatives from the NMAs, Press and independent researchers. KP government should avoid such block one-line presentation of such a big amount in the ADP.
- KP finance minister in his budget speech for the year 2019-20 could only specify 28 development projects with a total worth of Rs3 billion. Many projects mentioned in the budget speech are vague. This need to be avoided in the future budget speeches. The budget documents, as they shows lack of interest and will on the part of provincial government which may adversely affect transfers for the NMAs from the federal government.
- KP government promised some policy measures for financial inclusion of the NMAs to make it part of the mainstream Pakistan. While this is good but it does not reflect in the projects planned for the NMAs. This needs to be focused in the next budget of the province and some concrete projects should be planned for the same purpose.

- While NMAs are included in the new policy document of Sustainable Development Strategy (SDS) for the year 2018-23 for the province of KP, there is very little content on the specifics of the policy in the NMAs as compared to very detailed formulation for the old settled districts of the province. NMAs were treated as a separate unit and is not aligned with sectoral objectives of the overall province. For example, strategy for the settled districts of KP give detailed description of programs, plans and yearly budget allocations for the next 5 years; the same is missing for the newly merged areas. Special attention need to be given for the details to be included in the policy documents.
- Accelerated Implementation Programme for the newly merged areas is good plan document which specifically designed a plan for the development of NMA for the next 3 years. The document highlight that only in last 10 year, NMAs face a funding gap of Rs 377 billion while it may be above Rs 2.6 trillion for the entire seven (7) decades since the creation of Pakistan. KP government should built on this and press for more resources for the historical neglect of the region which led to extreme backwardness of the area. Like the rest of Pakistan, the residents of the Newly Merged Areas have a comparable claim on the national resources of the country and they need to be made part to contribute to the growth of the country.
- Overall, Rs79 billion were allocated to the NMAs for both their development and non-development needs in the fiscal year 2019-20. Unfortunately, in the first 5 months of the ongoing fiscal year, only Rs 32.7 billion were released for the current budget to be spent in the newly merged areas. Even worst, the actual expenditure out of this comes only to Rs5.8 billion in the first five months of the ongoing fiscal year as seen on KP's government finance department's website. This is because of lack of proper planning for the NMAs and less focus on the specifics of spending in the region in KP's policy documents.
- Similarly, the overall budget allocation for development purposes in the newly merged areas amount to Rs 83 billion for the ongoing fiscal year of 2019-20. The update position on KP's finance department website is showing a reduce amount of Rs 81.3 billion which is Rs 1.7 billion lower than shown in the budget document as announced at the time of presentation of KP budget. However, the more concerning point is that only Rs 8.5 billion was released in the first 5 month of the ongoing fiscal year. More worrying is that out of this amount, the real expenditure comes only to around Rs 1.3 billion as on 25th November 2019. KP government should speed up spending in the NMAs as then voices from the federal government will be raised about the lack of capacity in the provincial government. This is partly true as KP government did not plan well for the development of NMAs if we compare it with other settled districts of the province.
- While Federal government committed to transfer Rs72 billion for the development of NMAs, it has only released Rs12.872 billion by 22nd November 2019 which is just 18% in the first 5 months. KP govt should stress the federal government for on-time releases so that contractors busy in the development projects in NMAs received timely transfers and avoid project delays.
- Another worrying scenario is the neglect of NMAs in the regular PSDP programs which is mainly federal government direct investments in development across Pakistan. Over the last decade, the newly merged areas (erstwhile FATA) received only 3.31% of the

total PSDP budget which is one of the reason for backwardness in the newly merged areas. For example, the region over the last 7 decades had no funding for a University while the rest of Pakistan has seen significant growth in new universities. This need to be raised by KP government with the federal government and stress to fill this gap of historical neglect of the NMAs.

- Lastly, the newly merged areas should be treated part and parcel of the federal divisible pool taxes and a transfer to the NMAs should be mainstreamed in the next NFC Award. In our calculations based on old NFC formulae and new census and poverty figures, NMAs due right comes to around 5.2% of the total divisible pool taxes. KP government should make a case for proper inclusion of NMAs in the next NFC award and discard the arbitrary allocation as federal transfers. This will not only guarantee an increase share for NMAs from total federal resources but will be irreversible, as it will form part of constitutional provision.

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