[Musharraf Rasool Cyan](https://www.thenews.com.pk/writer/musharraf-rasool-cyan)

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**Fata: the NFC correction**

Part - I

The writer has a doctorate in economics and has three decades of experience in public policy and management. He represents KP in the 10th NFC.

The 25th Constitutional Amendment, unanimously passed by public representatives from all the four provinces of the country shifted a federal responsibility to the Khyber Pakhtunkhwa province. It was unprecedented in both its national outlook as well as its momentous promise for the integration of former Fata into a more developed Pakistan. The country was correcting an historical wrong in keeping the people separate and unequal; the country was also addressing the current problems of underdevelopment through this merger.

Unfortunately, great legislation in itself is not sufficient to solve the most pressing issues. It just marks the beginning. The substance eventually comes with funding so the intent of legislation can be realised.

The merger generated two key implications: that all the constitutional provisions, including the NFC share of Fata, become applicable and that the five million citizens of Pakistan residing in Fata will now receive equal access to public services. The constitutional provision triggered a correction of the historic oblivion of Fata in national public finance. The second implication was that the national developmental priority assigned to KP continues to receive national attention. The former remains unaccomplished and the latter is now to be tested.

On the day parliament assigned Fata to KP – on June 1, 2018 – finance should have immediately followed on the set of newly assigned functions. This would have been only appropriate and in line with the well-known economic precepts. It seems that the grand systems of finance that are tuned to pick up minor discrepancies in operations did not notice the large fiscal inadequacy laid on to one province – and they continue to gloss over it. The 9th NFC also did not rise to the occasion. It failed to compute Fata’s share and add it to the 7th NFC Award. As a consequence, in its current form the Award has become non-compliant with the constitution as it ignores a substantial entity and does not assign it any share from the divisible pool. This is a straightforward legal reading of the situation.

An even easier task would be the national development reading of high rates of maternal and infant mortality rates of Fata, the most abysmal in the world and at twice the national average, and that the five million citizens of Pakistan resident in Fata should get an equivalent access to public services. The spirit of equalization, and NFC as its ordinate mechanism, manifests as equal access to public services for all citizens, irrespective of their place of residence. For example, Punjab and Sindh, the better developed parts of Pakistan, had Rs3,557 and Rs5,602, both in per capita terms for the year 2018-2019, as own-source revenue to finance public services.

KP by comparison with its much lower tax potential had only Rs1,544 per capita from own-source revenue. With the addition of the Fata responsibilities, the own-source revenue available in KP plummets to Rs1,333 per capita, a much lesser resource to develop and maintain services that matter to people. These differences create a wide open case for fiscal equalization that if delayed any further widens the chasm of regional disparity in development. These are straightforward numbers that describe the direness of the fiscal space for KP to fulfil its obligations to Fata.

The NFC is a mechanism to achieve fiscal equalization across the regions of Pakistan. From the equity perspective, the normative argument is manifestly apparent: all citizens of Pakistan should get equivalent access to services, without regard to their place of residence. You can’t have a citizenry where we spend billions of rupees to build urban infrastructure in tax rich jurisdictions while the education and health budgets that are already thinned out starve on the periphery of these services in the historically neglected regions.

The positive argument for fiscal equalization is even more incessant even if not evidently apparent. It supports economic efficiency in allocation of the factors of production. The wide differences in net fiscal benefits across regions cause migration which is not efficient. In the last one decade or so, between 2008 and 2017 for instance, labour force surveys indicate that there has been a net out-migration from Fata. In the LFS 2017, it showed it to be to the tune of 14 percent of Fata's population.

It will not be difficult to say that to a great extent this would be fiscally induced migration on account of the unequal net fiscal benefits between the tribal districts and the large urban centers of Pakistan. In other words, the currency of inattention to Fata under the 7th NFC Award will be a false celebration of equity and as well as efficiency.

There is the structure and then there is the spirit of the NFC. The structure is often discussed but the spirit is seldom highlighted. The spirit of the NFC is 'leaving no citizen and no area behind'. It pursues national development together, hoping for converging development over time. All provinces of Pakistan receive NFC transfers and then second order transfers on top of them. One is not a substitute for the other. Any federal investments in Fata are not a substitute for the NFC share of Fata. Federal expenditures under largescale programs like CPEC and the motorway projects actually may run counter to equalization with hardly any investments accruing to Fata. Equalization is largely achieved through the NFC transfers.

From a public finance perspective, can you just assign a large-sized federal and national responsibility to one province? An even more urgent question is: can you assign a development lag of historic proportions, created and conserved on federal watch, to one province? The logical answer is: not without sufficient resources. Finance follows a function where nations aim to embrace regions lagging in development. Without an NFC mandated share of Fata in the transfers, how to catch up with more than a trillion rupee backlog in public investments in public infrastructure and social services in Fata?

It may be a multipart solution. The NFC mechanism in its current incarnation cannot postpone correction of the 7th Award and as the first part determine a share of Fata as an entity using the currently applicable formula. This will at least address the constitutional incongruence and keep the 7th Award compliant. The longer-term solution will be the next step for the 10th NFC to take in its stride towards a more developed Pakistan that integrates all regions into the common achievement of life opportunities for the citizens.

To be continued

Email: cyanm777@gmail.com