# The bitterness of the Baloch

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THE Baloch feel acutely deprived and are very angry. The causes of their distress are deep-rooted and some suggestions from official quarters that Akbar Bugti wants to extract a heavier pound of flesh than that which he is already getting from the system and that an external hand is exploiting the odious incident at the Sui facility, is a poor attempt to trivialize the significance of the long-standing complaints of the Baloch.

This article focuses on the raw economic hand that has been dealt to Balochistan under different dispensations over the years, by reviewing the present arrangements.

Of Balochistan's total budgeted revenue receipts of Rs. 26.4 billion for this year, close to 94 per cent are expected to flow from the federal government, either as its share from the divisible pool of taxes (Rs. 10.3 billion, a share of 38.9 per cent), as straight transfers (Rs. 7.4 billion, 27.9 per cent), or as subvention grants for its backwardness (Rs. 5.8 billion, 22 per cent). The province only contributes around six per cent of revenues, which also highlights both the heavy dependence on federal transfers and the huge mismatch between the assigned responsibilities of the province and the wherewithal available to it to discharge such obligations.

The high fiscal dependence on federal transfers is on account of the centralized tax structure (especially after the introduction of GST), the almost exclusive powers granted by the Constitution to the federal government to make use of the revenue potential provided by all major, broad-based and buoyant taxes and the skewed distribution of tax revenues brought about by the NFC Award of 1997, which has resulted in a revenue sharing formula that favoured the federal government at the expense of the provincial governments.

For Balochistan, not only have total federal transfers (including straight transfers in the form of the Gas Development Surcharge (GDS) and royalty on gas, subvention grants and the 2.5 per cent provincial share of GST) grown at a modest rate of 1.8 per cent per annum since 2001/02, but they have also tended to be volatile and unpredictable, at least until recently, often rendering the provincial revenue and expenditure estimates unrealistic.

population-based division of the divisible pool puts Balochistan at a distinct disadvantage.

Under the 1997 NFC Award Balochistan has been receiving subvention grants to cater for the special development needs of the province. The problem with this approach is that there are no agreed criteria for setting the level of subvention. Resultantly, the Balochistan government has little leverage in negotiating a specific amount in the form of subvention.

There has been some indexation of the basic amount with inflation, but the criteria for determining the basic amount as well as negotiating raises is not clearly defined, affecting the predictability and certainty of resource flows under this head from the federal government.

As mentioned above, Balochistan also receives direct transfers from the federal government on account of its ownership of gas. These transfers relate to the excise duty and royalty on gas, and its share of the Gas Development Surcharge (GDS). The excise duty on gas is based on production volumes. The excise duty is set at a low rate (of Rs. 5.30 per BTU), which was established several years ago. The federal government sets the rate and collects the tax, and then transfers the respective shares to the provinces. Since Balochistan has no role in the entire process, it cannot influence the federal government's policy on this count.

The royalty on gas is paid in recognition of the ownership right of the province. It is fixed at the rate of 12.5 per cent of the gas sold and valued at the well-head price. However, the well-head price has been pitched at a low level for the gas fields in Balochistan, compared with the royalty being paid on gas fields elsewhere, those discovered recently whose well-head prices are much higher.

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product of volume and average weighted price paid by the final consumers), Balochistan's share is being artificially depressed. Whereas it contributes 53 per cent to 65 per cent under different formulas, it is now getting a share of roughly 35 per cent in the GDS distributed between the provinces. If the formula is changed to give Balochistan a fair share, it would get a GDS of approximately Rs. 9.8 billion instead of the present Rs. 4.8 billion. Also, Rs. three to four billion rupees is due to Balochistan for the difference in GDS payable by gas producers on the basis of collections and the GDS liability paid by them to-date.

In the light of the discussion above this writer strongly believes that to be able to address the kind of grievances being articulated by the Baloch (and for that matter also by the Pashtuns and the Sindhis), a new federal structure has to be devised in the interest of stability in Pakistan. This will require a recasting of the Constitution and the establishment of a more viable structure that gives meaningful autonomy to the provinces.

This realignment will involve a slashing of the Concurrent List and the handing over of full control of all key resources (especially those found below the ground like oil, gas and other major minerals) to the provinces where these resources are located. In defence of this proposal one can argue that if Pakistan's political and economic structure were to be implanted in the US, Texas (and for that matter in other federations in the world, like Canada and Australia) with all its oil, would not be rich; instead entrepreneurs in New York and Washington would be living it up.

Contrast the situation in the US in which the wealth of Texas belongs to the citizens of that state with that in Pakistan where the gas rich Balochistan, the owner of this country's lifeline and the richest resource, is the least developed province in both physical and social terms and which continues to beg for funds from the federal government to stay afloat.

More importantly, Islamabad has to be persuaded to give up many of the activities that it has taken upon itself to perform, largely because of the massive share of national revenues and resources that it appropriates. This is why the federal development programme includes not only Gwadar, the Coastal Highway and the Sandak projects but also the construction of provincial roads (like those connecting Chaman and Quetta and Quetta and Kila Saifullah), which should be implemented by the tic.

The high degree of dependence on federal transfers has left Balochistan little leeway in absorbing the cost of shortfalls in such transfers, since the potential for mobilization of revenues from its own taxes and user charges for provincially provided services has tended to be limited.

As of now the NFC divisible pool is distributed on the basis of population. This formula uses population as the sole criterion, meaning that all development is about, and for, people. However, this suggests that all citizens of Pakistan should be treated equally, regardless of the fact that population density is not the same across provinces and all provinces are not starting from similar initial positions of service provision.

There is a minimum overhead and administrative cost of providing a service based on an acceptable standard of service delivery. Balochistan with its scattered and sparsely populated settlements has to bear a higher unit cost for providing services. Since Balochistan has a low population density, a high level of poverty and backwardness (in terms of provision of infrastructure like roads and electricity and health and education services) A large land-mass, a purely fields in Balochistan have been fixed on a cost-plus formula, well below the well-head prices of new gas fields, requiring an adjustment in favour of Balochistan by transferring to it the difference between royalty at a market price and the well-head price for fields which are on the cost-plus formula.

At present, the GDS is determined on the basis of the cost of exploration and is distributed between the provinces according to the proportion of volume contributed by different gas fields to total national gas supply. This sharing arrangement has been put in place despite the fact that the GDS collected is a function of the difference between the weighted prescribed price (determined on the basis of the well-head price, O&M cost, excise duty, etc.) and the price paid by the consumer. GoB's gas fields are mature and are fast depleting, which has resulted in the reduction of the share of Balochistan in the GDS. Since the well-head price for Balochistan fields is low, its contribution margin, per unit of gas, to the total GDS is more than the contribution of gas fields in other provinces.

By allocating GDS receipts on the basis of volumes rather than total value of gas sold (being the should be implemented by the provincial government, essentially because some of them, even under this flawed Constitution, fall entirely within the purview of the provincial and local governments.

Other than problems being encountered on account of poor coordination between different tiers of government and some duplication of effort and expenditures, the projects also suffer from poor design and lack of prioritization, activities that the provincial government is much better placed to carry out. It is just that the federal government will simply not let go of functions and resources that rightfully belong to lower formations of government.

The answer to the injustice felt by the Baloch lies in solutions outlined above and a genuine federal system and not in conjuring at a political system around some misconceived notion of 'supreme national interest' nor by simply increasing the size of the federal government's development programme in Balochistan and enhancing the job quotas for the Baloch in federally managed public services and projects.

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