



Date: **26 August 2022**

Mr. Miftah Ismail
Finance Minister
Government of Pakistan

Subject:

Provincial surpluses in the IMF MOU

Dear Mr. Miftah Ismail Sb,

This letter is to follow up on my letter to you on the same topic on July 6 this year.

When we last met, the federal government committed to resolve our major financial issues. In return, as committed, I obtained the authorization of the Chief Minister, for the province of Khyber Pakhtunkhwa to sign on to the MoU and did so within 24 hours. We did this in the greater national interest. However, in contrast to this, in the intervening period of almost 2 months, we have been unable to get time to meet either with the Minister or the Secretary, even once. This despite repeated requests.

Let me remind you of the criticality of the issues.

1. Perhaps most importantly, to resolve the budget allocations for ex-FATA, which, in the absence of an updated NFC award, are decided at the discretion of the federal government.
 - a. To resolve the issue of current budget allocations for ex-FATA, which are insufficient to cover even the monthly salary costs of existing employees.
 - b. To finance the transfer of the Sehat Card Programme for the residents of ex-FATA, in which the federal government has chosen to unilaterally deprive the 6 million residents of ex-FATA of health insurance.
 - c. To ensure adequate budgeting to cater to the needs of TDPs (Temporarily Displaced Persons moved into out of districts camp because of operations against militancy).
2. To commit to monthly NHP transfers based on the MoU signed between the federal government and the Government of Khyber Pakhtunkhwa in 2016. Incidentally, this MoU was signed during the previous PML-N.
3. For the federal government to immediately revive the National Finance Commission (NFC), so that these issues can be resolved more permanently.
4. For the federal government to also commit to immediately engage and resolve other financial issues with the Government of Khyber Pakhtunkhwa. These include but are not limited to; clearing outstanding liabilities to the Pakhtunkwa Pakhtunkhwa Energy Development Organisation (PEDO); resolving the issues of energy wheeling; resolving the issue of WACOG, and the availability of natural gas to the province in line with Article 158; the financing of PESCO to develop transmission and distribution infrastructure in the province; and the commitment of the federal government to not delay execution of provincially funded PESCO and TESCO projects; and not substituting the Federal Excise Duty with the Petroleum levy without provincial consent, as this amounts to unilaterally reducing the size of provincial transfers from the total quantum of federal collections.



We estimate that the overall impact of not resolving these issues is actually to create a Rs 100 billion unfunded liability in the Khyber Pakhtunkhwa budget.

Now, make the situation even more challenging, the monsoonal flooding that we are currently facing, that as we speak has wreaked destruction in Swat, DI Khan and Tank, but that may over the course of the next few hours and days, make the damage from this year's flooding greater than the super-floods of 2010. The cost in terms of rescue, relief, rehabilitation and building back is likely to run into the tens of billions.

Please note that in these conditions, and without the resolution of the issues highlighted previously, for the province of Khyber Pakhtunkhwa to actually leave a surplus will be next to impossible.

Sincerely,

Taimur Khan Jhagra

Minister for Finance