



ECONOMIC POLICY  
& BUSINESS DEVELOPMENT  
THINK TANK



# Economic **Analysis** of Provincial Restructuring in Pakistan

# A U T H O R S

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# INTRODUCTION

*Over the last week, different individuals have used media platforms to discuss the creation of additional provinces in Pakistan. Without engaging in discussions regarding constitutional or administrative complexities, the Economic Policy and Business Development (EPBD) think tank has conducted a focused analysis on the economic implications of provincial restructuring. This brief examines solely the economic rationale for creating smaller provinces, deliberately avoiding any judicial, legal, administrative, or constitutional discussions. The economic impact assessment presented herein is based purely on economic theory, empirical data, and comparative analysis to provide objective insights for policy consideration.*

*Pakistan's administrative structure faces mounting pressures to adapt to contemporary economic development challenges and evolving governance requirements. This analysis examines provincial restructuring through an economic lens, evaluating how administrative reconfiguration might affect fund utilization patterns, resource allocation mechanisms, infrastructure development outcomes, and regional income distribution. The assessment explores whether smaller provincial structures could enhance or constrain economic performance, considering both potential efficiency gains from improved governance proximity and possible challenges from increased administrative overhead. Under the assumption of maintained governance quality and institutional effectiveness, this analysis provides an evidence-based evaluation of restructuring's economic implications for Pakistan's development trajectory.*

## **Regional Disparities & the Case for Administrative Restructuring**

Pakistan's existing provincial structure concentrates large and diverse populations into oversized administrative units, creating structural imbalances that manifest in persistent regional disparities. The poverty rate analysis reveals substantial variations, with Balochistan experiencing 70 percent poverty compared to Punjab's 30 percent, while Khyber Pakhtunkhwa and Sindh record 48 percent and 45 percent respectively. These disparities reflect inefficient resource allocation under the current large provincial structure, where diverse regions with different economic needs are managed through uniform policies.

Employment-to-population ratios further illustrate these regional imbalances, with Punjab achieving 47.38 percent civilian labor force participation compared to Khyber Pakhtunkhwa's 39.51 percent. Provincial budget allocations demonstrate resource concentration patterns, with Punjab receiving Rs 5,335 billion compared to Balochistan's Rs 1,028 billion, yet poverty rates indicate these allocations fail to translate into proportional development outcomes.

## Table 1: Current Provincial Statistics - Pakistan

Indicator	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan
Population (2023 Census) (Million)	127.69	55.69	40.85	14.89
Population Density (per km <sup>2</sup> )	621.8	395.3	401.6	42.9
Literacy Rate (10+ yrs)	66.3%	57.5%	51.1%	40.2%
Out of School Children (5-16 yrs)	6.44	7.82	4.92	2.94
Provincial Budget (FY2025-26) (PKR Billion)	5,335	3,450	2,119	1,028
Public Universities	34	27	34	Not specified
Public Hospitals (2019)	389	473	277	134
HDI Ranking	Highest	2nd	3rd	Lowest

Source: PBS, Annual Budget Statement FY26, HEC, UNDP Report

Service delivery is visibly uneven across provinces due to size and complexity. Hospitals per million people (public hospitals) show Punjab at approximately 3.0, Sindh at 8.5, KP at 6.8, and Balochistan at 9.0, with Punjab facing extreme shortfalls that align with congestion in major facilities. Public universities per million reveal Punjab at 0.27, Sindh at 0.48, and KP at 0.83, indicating Punjab's tightest tertiary access per capita.

The literacy rate disparities compound these economic challenges, with Punjab achieving 66.3 percent literacy compared to Balochistan's 40.2 percent. Out-of-school children data reveals that Sindh has 7.8 million children out of school despite having a smaller population than Punjab, indicating severe inefficiencies in educational resource allocation that directly impact labor force quality and economic productivity.

# International Comparative Analysis: Pakistan's Administrative Structure in Global Context

International comparison reveals that Pakistan's administrative units are exceptionally large by global standards, creating governance inefficiencies that constrain economic development. With an average population of 34.4 million per administrative unit (including federal territories), Pakistan significantly exceeds international norms for effective governance.



## Table 2: Global Provincial/State Structures

Country	Population (2024/25) (Million)	Total Administrative Units	Average Population per Unit (Million)	Administrative Structure
China	1,409	34	41.4	23 provinces + 5 autonomous regions + 4 municipalities + 2 SARs
India	1,428	36	39.7	28 states + 8 union territories
USA	339	51	6.6	50 states + DC federal district
Indonesia	278	38	7.3	38 provinces
Pakistan	241	7	34.4	4 provinces + Islamabad + GB + AJK
Nigeria	229	37	6.2	36 states + FCT Abuja
Brazil	216	27	8.0	26 states + Federal District
Bangladesh	173	8	21.6	8 divisions (administrative units)

Country	Population (2024/25) (Million)	Total Administrative Units	Average Population per Unit (Million)	Administrative Structure
Russia	144	85	1.7	85 federal subjects
Mexico	129	32	4.0	31 states + CDMX federal entity
Malaysia	34	16	2.1	13 states + 3 federal territories

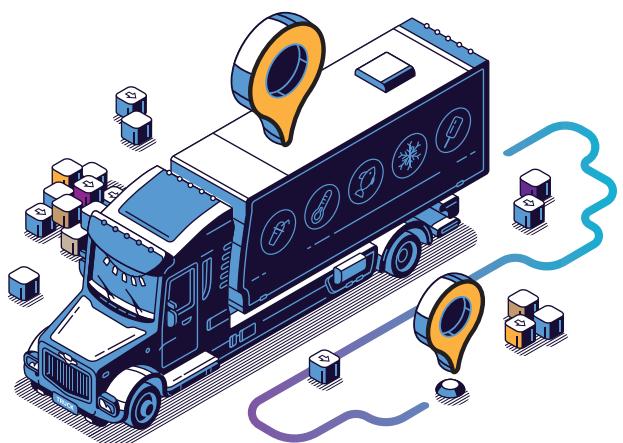
When considering only Pakistan's four main provinces, the average population per province reaches nearly 60 million—an extreme outlier globally for federal systems. This oversized structure creates service delivery bottlenecks, limits administrative responsiveness, and constrains the targeted policy interventions necessary for addressing regional economic disparities.

## Economic Theory: Infrastructure Development & Aggregate Demand Generation

Provincial restructuring would enable more efficient infrastructure development through targeted fund allocation, generating significant aggregate demand effects across the economy. Smaller provinces would concentrate development spending on specific infrastructure needs rather than spreading resources across diverse regions with varying requirements, increasing investment effectiveness and creating substantial multiplier effects.

The infrastructure development process under smaller provinces would generate employment opportunities across multiple sectors. Each new province would require administrative infrastructure, educational institutions, healthcare facilities, and transportation networks, creating direct and indirect jobs. The scale of employment generation would depend on the specific administrative model adopted and the level of services provided.

Infrastructure development would create forward and backward linkages throughout the economy.



Improved transportation networks would reduce transaction costs for businesses, while enhanced educational and healthcare infrastructure would improve human capital quality. These improvements would attract private investment and encourage entrepreneurship, creating sustainable economic growth cycles within each province. The competitive environment between provinces would further incentivize infrastructure development as provinces seek to attract investment and talent.

Measurable improvements in social services and investment can be achieved by aligning administrative boundaries with population needs. Establishing one teaching hospital and one public university in each newly created province within three to five years would quickly expand capacity. In Punjab, a three-way split with one additional university per new province would increase universities per million people from 0.27 to 0.29, providing some relief to overcrowded facilities, though significant additional investment would be needed to reach the capacity levels of better-served provinces like Khyber Pakhtunkhwa.

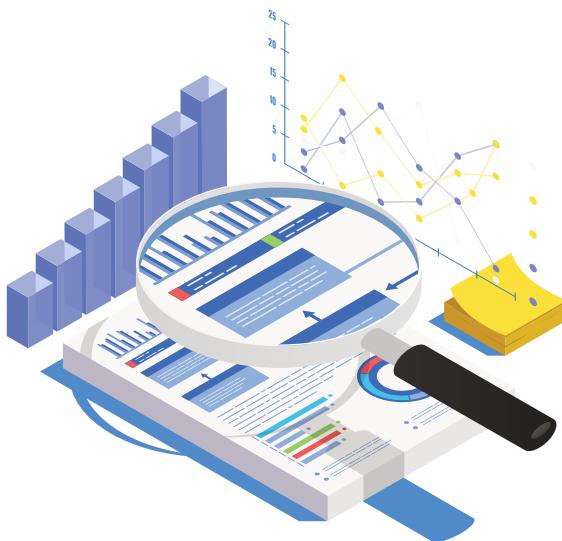
Focused provincial campaigns could achieve 10-15% reductions in out-of-school children over three years in highest-burden areas through targeted teacher recruitment, training pipelines linked to local colleges, and strategic school construction. If each new province launches 2-3 SEZs and 5-7 PPPs, a 6-8 province expansion could yield 12-24 SEZs and 30-56 PPP projects nationwide, creating bankable mid-sized ventures that crowd in private capital and jobs.

## **Enhanced Fund Utilization Efficiency & Resource Allocation**

Smaller provinces would significantly improve fund utilization efficiency by enabling precise targeting of development spending toward specific regional needs and opportunities. The current system where large provinces manage diverse economic zones leads to suboptimal resource allocation, as evidenced by persistent poverty disparities despite substantial budget allocations. Punjab's relatively low per capita budget allocation of Rs 41,781 compared to Balochistan's Rs 69,037 demonstrates that absolute budget size does not guarantee development effectiveness under large provincial structures.



Provincial restructuring would create competitive pressures for efficient resource utilization, as smaller provinces would face greater accountability for development outcomes. Each province would develop specialized strategies aligned with their specific resource endowments and economic potential, leading to higher returns on development



investments. The transparency of resource allocation would improve as stakeholders could more easily monitor spending effectiveness within smaller administrative units. The concentration of development funds within smaller geographic areas would enable provinces to achieve critical mass in infrastructure development, creating visible improvements in service delivery and economic opportunities.

## Reducing Income Disparities Through Specialized Development Strategies

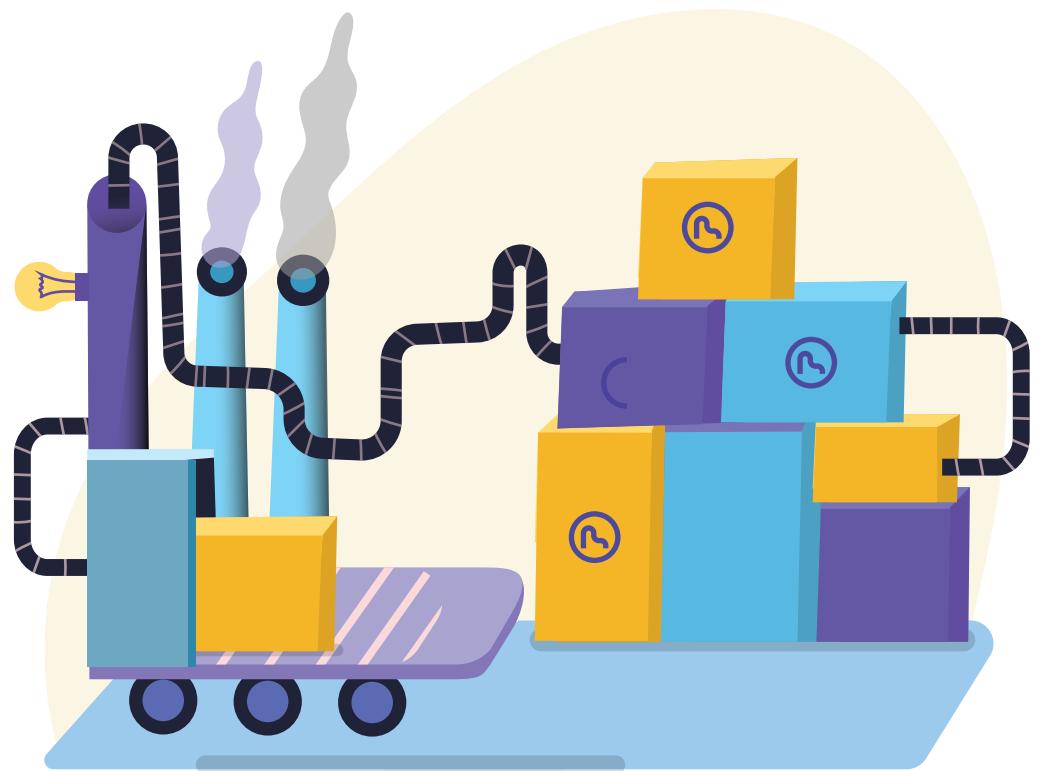
Provincial restructuring would address income disparities by enabling specialized development strategies that leverage each region's comparative advantages while ensuring equitable resource distribution. The current poverty rate variations from 30 percent in Punjab to 70 percent in Balochistan reflect the failure of uniform development approaches to address diverse regional conditions. Smaller provinces would develop targeted interventions based on local economic potential, natural resources, and demographic characteristics.



Each smaller province would have enhanced capacity to identify and develop niche economic sectors, creating specialized employment opportunities that reduce dependence on traditional economic activities. This diversification would particularly benefit regions currently experiencing high poverty rates, as specialized development strategies could unlock previously untapped economic potential. The competitive environment between provinces would encourage innovation in economic policy and development approaches, driving overall improvements in living standards.

The reduction in administrative distance between provincial governments and local communities would improve the targeting of poverty reduction programs and social services. Smaller provinces would have better information about local conditions and needs, enabling more effective design and implementation of economic development initiatives that ensure development benefits reach disadvantaged communities more effectively than under the current large provincial structure.

## Industrial Development & Human Capital Formation



Smaller provinces would create more favorable conditions for industrial development through improved coordination between educational infrastructure and labor market needs. Industries would benefit from improved labor quality as smaller provinces develop targeted educational and training programs aligned with specific sectoral needs. The geographic concentration of educational investments within smaller provinces would create clusters of skilled workers, reducing recruitment costs for businesses and encouraging industrial location decisions. This clustering effect would be particularly beneficial for technology-intensive industries that require specialized skills and knowledge networks.

Smaller provinces would enable more precise industrial strategies built around each region's strengths through tailored Special Economic Zones (SEZs). This would include agro-processing and cold-chain hubs in South Punjab and Upper Sindh, mineral-processing corridors across Balochistan, light engineering clusters in Hazara, and IT-enabled services parks near new provincial capitals. Proximity would accelerate execution, with SEZ authorities located near firms providing faster approvals, predictable permitting, and effective aftercare services.

# SCENARIO ANALYSIS

## Economic Implications of Administrative Restructuring



# SCENARIO 1

## 12-Province Structure

Under a 12-province structure, federal transfers would continue following the 7th NFC award formula, ensuring restructured provinces receive appropriate funding based on their specific characteristics. The average total provincial budget would be approximately Rs 994 billion per province compared to the current average of Rs 2,983 billion, but this reduction would be offset by significant improvements in fund utilization efficiency and development effectiveness. Each province would manage approximately 20.1 million people compared to the current average of 59.8 million, enabling more responsive governance and targeted development strategies.

## Table 3:

### 12-Province Structure Economic Parameters

Parameter	Current Structure	12-Province Structure	Economic Impact
Average Population per Province (Million)	60.4	20.1	Enhanced administrative responsiveness
Average Total Provincial Budget (PKR Billion)	2,983	994	Improved fund utilization efficiency
Poverty Rate Variation (%)	40 percentage points	Expected to reduce through enhanced targeting	Reduced regional disparities
Employment Rate Variation (%)	8 percentage points	Anticipated convergence through competitive governance	More balanced labor markets

# SCENARIO 2

## Expanded Provincial Structure (15-20 Provinces)

Creating 15-20 provinces would maximize administrative responsiveness while maintaining viable economic development capacity. The average total provincial budget would be approximately Rs 600-800 billion per province, with each province managing 12-16 million people, creating optimal conditions for targeted development interventions and accountability. This structure would particularly benefit Pakistan's diverse ethnic and linguistic communities by providing dedicated administrative units aligned with cultural and economic identities.

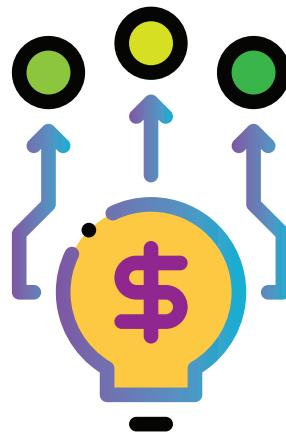
# SCENARIO 3

## Direct Federal-Division Structure (38 Divisions)

Direct federal management of 38 divisions represents an alternative approach that could capture administrative efficiency benefits while maintaining centralized coordination capacity for large-scale economic development initiatives. Each division would manage approximately 6.3 million people, enabling highly targeted development interventions. The federal-division structure would facilitate coordinated economic planning across regions while maintaining local implementation capacity.

# Provincial Revenue Generation Opportunities

Creating smaller provinces would necessitate enhanced revenue generation capabilities, presenting opportunities for more efficient and equitable taxation systems that support sustainable economic development.



## ► Agricultural Income Tax Reform

Smaller provinces could implement more targeted agricultural income tax policies by reassessing the current 12.5-acre exemption threshold. Categorizing land according to size, location, irrigation status, and productivity would enable more equitable taxation that reflects actual land use and potential value. This reform could generate up to 1% of GDP in additional provincial revenues, providing new capacity for essential services and development programs without excessive burdens on smallholders.

## ► Land and Property Taxation Enhancement

A robust framework for land and property taxation would require reliable ownership records linked to national identifiers. Establishing clear records tied to CNICs and tax IDs would create a trustworthy basis for taxation while reducing evasion opportunities. Harmonized valuation systems using current market-based assessments rather than outdated official rates would align taxes with real value. These changes could unlock up to 2% of GDP in additional revenues, strengthening fiscal capacity for provincial development needs.

## ► Urban Real Estate and Anti-Speculation Measures

Urban land and real estate taxation requires targeted actions to discourage speculative ownership and unproductive holdings. Tightening taxation of urban immovable property would discourage speculation while aligning effective tax rates between rented and owner-occupied properties. Higher taxes on vacant plots would encourage timely development and more efficient land use, contributing to better urban planning outcomes.

## ► Federal-Provincial Coordination for Smaller Provinces

For smaller provinces, coordination with federal government is crucial to reduce compliance burdens and create streamlined tax systems. Developing digitized land records, unified GST portals, and shared databases between FBR and provincial tax authorities would facilitate data sharing, improve accuracy, and reduce administrative overhead of multi-jurisdictional taxation.

<sup>1</sup> World Bank's report titled *Strengthening Government Revenues* (discussion note 6)

<sup>2</sup> Ibid

## Implementation Timeline & Economic Impact Assessment

The transition to restructured provincial systems requires careful management of implementation costs and coordination mechanisms to ensure economic benefits are realized effectively. The current fiscal framework shows provincial transfers of PKR 8,206 billion representing 41.8 percent of gross revenue receipts, with Provincial Public Sector Development Programme totaling PKR 2,869 billion compared to Federal PSDP of PKR 1,000 billion.

### Table 4:

#### Implementation Timeline & Economic Impact Projections

Phase	Timeline	Economic Focus	Expected Outcomes
Preparation	Year 1	Infrastructure assessment, capacity building	Foundation for efficient implementation
Implementation	Years 2-3	Administrative establishment, initial projects	Early improvements in service delivery
Consolidation	Years 4-5	Full operational capacity, competitive dynamics	Measurable improvements in development outcomes
Optimization	Years 6+	Refined strategies, inter-provincial competition	Sustained economic growth and reduced disparities

The economic benefits would become evident through improved development project completion rates, reduced poverty disparities between regions, increased employment generation, and enhanced private sector investment. The competitive environment between provinces would drive continuous improvements in efficiency and innovation, creating sustainable economic growth momentum that leverages Pakistan's working-age population representing 129.7 million people (53.8% of the total population).

# CONCLUSION

The economic case for provincial restructuring in Pakistan is compelling when analyzed through regional disparity reduction, fund utilization efficiency, and aggregate demand generation. The current provincial structure fails to address significant regional variations in poverty (30-70%), employment rates (8 percentage point variation), and educational outcomes (literacy rates spanning 40.2-66.3%), perpetuating economic inefficiencies that constrain national growth potential.

International comparisons demonstrate that Pakistan's administrative units are exceptionally large by global standards, with 34.4 million people per unit compared to 6.6 million in the USA, 7.3 million in Indonesia, and 2.1 million in Malaysia. This oversized structure creates governance bottlenecks that limit economic development effectiveness.

The analysis of restructuring scenarios indicates that each approach offers distinct economic advantages, with the 12-province structure providing optimal balance between administrative capacity and responsiveness, the expanded provincial structure maximizing local responsiveness and competitive dynamics, and the federal-division structure offering centralized coordination benefits. Pakistan's substantial demographic advantages, including 241.5 million people and significant regional economic diversity, require governance structures capable of rapid response to development opportunities and effective targeting of resources toward specific regional needs.

Under the assumption of constant and effective governance, provincial restructuring offers a strategic path toward sustainable and inclusive economic development that addresses current regional disparities while leveraging Pakistan's economic potential through more efficient resource allocation, enhanced infrastructure development, improved human capital formation, and specialized development approaches that create measurable improvements in living standards and economic opportunities across all regions.