

Examining the Fiscal Case for New Provinces in Pakistan



PRIME PLUS

OCTOBER 2026



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Executive Summary

1. The debate over creating new provinces in Pakistan has gained renewed attention, with proponents arguing that smaller administrative units could improve representation, governance and access to public services.
2. However, much less attention has been paid to the fiscal implications of provincial restructuring. This report examines two questions: how would the existing provincial share of the divisible pool be distributed among the proposed units under the 7th NFC Award and how much additional recurring expenditure would new provinces require?
3. The analysis considers two restructuring scenarios. Scenario A divides Punjab into Bahawalpur, South Punjab and the remaining Punjab, increasing the number of provinces from four to six.
4. Scenario B treats each existing administrative division within Punjab, Sindh, Khyber Pakhtunkhwa and Balochistan as a province, resulting in 30 provinces.
5. The NFC exercise uses a nested allocation approach in which each existing province retains its current 7th NFC share, which is then distributed among its successor units according to the existing NFC criteria: population, poverty and backwardness, revenue collection or generation, and inverse population density.
6. Under Scenario A, South Punjab receives an illustrative allocation of Rs 1,001.06 billion, while Bahawalpur receives Rs 537.01 billion.
7. Under Scenario B, allocations differ considerably, ranging from Rs 720.94 billion for Lahore and Rs 690.84 billion for Karachi to Rs 45.62 billion for Loralai and Rs 49.83 billion for Zhob. 11 of the 30 proposed units receive less than Rs 150 billion.
8. The estimated annual recurring cost of a new provincial government is Rs 22.4 billion under the low-cost scenario and Rs 25.9 billion under the high-cost scenario.
9. Under Scenario A, the net additional recurring cost is estimated at Rs 46.9–56.2 billion annually, equivalent to around 0.55–0.66% of the formula-based provincial pool.
10. Under Scenario B, the corresponding cost rises sharply to approximately Rs 609.2–730.3 billion, or 7.18–8.61% of the formula-based pool.
11. The most important finding emerges when these fixed institutional costs are compared with the NFC resources available to individual proposed provinces. Large units such as Lahore and Karachi would spend only around 3–4% of their illustrative NFC allocations on the core provincial structure, while the burden rises sharply for smaller units.
12. Using a 10% fiscal sustainability benchmark based on the low recurring-cost estimate, 16 of the 30 proposed provinces under Scenario B remain at or below the threshold, while 14 exceed it.
13. The burden is particularly high in the smallest units: the core provincial structure would absorb around 49% of Loralai's allocation, 45% of Zhob's and 37% of Rakhshan's even under the low-cost estimate.
14. Every proposed province with a population below 1.2 million would require more than one-third of its illustrative NFC allocation to finance the core provincial government structure.

15. The findings therefore show that the fiscal implications of restructuring depend strongly on the number and size of the provinces created. Limited restructuring involving relatively large units produces a much smaller recurring burden, whereas several smaller division-based provinces would face disproportionately high administrative costs relative to their expected NFC resources.

16. Any proposal for new provinces should therefore be accompanied by a formal fiscal costing exercise, consideration of the resource base of the proposed units, and application of a fiscal screening benchmark to assess whether recurring provincial-government costs remain proportionate to available resources. Where the primary objective is improved access to government and public services, stronger local governments should also be considered as an alternative to replicating the full structure of provincial government.

17. At the fiscal level, creation of new provinces will put additional pressure on fiscal resources of smaller provinces, especially those with lower NFC allocations and constrained revenue generation capacity. A greater portion of their available resources would be consumed by ongoing government expenses, resulting in reduced fiscal room for other provincial spending, such as public service provision and developmental expenditure.

1 Introduction

In Pakistan's policy circles, the debate over the creation of new provinces has resurfaced again with unusual intensity. Different proposals are coming not only from the regional political movements, but also from senior government officials, universities and policy institutions. For instance, the Federal Minister for Communications, Abdul Aleem Khan, recognised the creation of new provinces as an urgent national requirement and proposed making three administrative units, namely North, Central and South, from the existing four provinces.¹ The Planning Minister also supported the idea of restructuring Pakistan's governance sector and proposed the creation of 15 additional provinces or the establishment of 160 fully empowered district governments.²

The case for creating additional provinces is increasingly linked to the persistent regional disparities in socio-economic indicators, particularly where low-performing areas remain geographically distant from the provincial capitals and centres of decision-making. These persistent disparities are often associated with the structural imbalances arising from the concentration of large and demographically diverse populations within geographically broad administrative units. Poverty rates also vary significantly across provinces, i.e., Punjab 23.3%, Sindh 32.6%, Khyber Pakhtunkhwa 35.3% and Balochistan 47%. Such differences highlight the uneven socio-economic conditions that persist under the current provincial structure.³

Advocates of provincial restructuring further argue that creation of additional provinces would improve governance, public service delivery and citizen welfare by bringing decision-making closer to underserved regions. The size and administrative complexity of the existing provinces are viewed as contributing to disparities in access to public service delivery. For instance, Punjab reportedly has 0.3 public hospitals per million people, compared with 8.5 in Sindh and 9.0 in Balochistan.⁴ It is also argued that the development expenditure and public investment tend to remain concentrated around capital cities and major urban centres, leaving regions outside major urban centres with weak access to public resources and services.

Policy circles have debated how many new provinces should be created and whether provincial restructuring could improve governance and public service delivery, ultimately contributing to better socio-economic outcomes across the country. However, these discussions have largely overlooked the economic and fiscal implications of creating additional provinces. Given Pakistan's already constrained fiscal space, it is important to examine how new provinces would be financed, what additional recurring cost they would impose, and how resources would be distributed among them under the existing NFC award. This report therefore examines the economic case for creating new provinces in Pakistan. It assesses how the resources could be distributed among the additional provinces under the 7th NFC award and estimates the recurring fiscal cost associated with different restructuring proposals.

¹ Press Information Department, Government of Pakistan, "New Provinces Are the Need of the Hour for Efficient Governance: Abdul Aleem Khan," October 31, 2025. Available at: https://pid.gov.pk/site/press_detail/30836.

² Shahbaz Rana, "Ahsan Iqbal Proposes 15 New Provinces," *The Express Tribune*, September 2, 2026. Available on: <https://tribune.com.pk/story/2627006/ahsan-iqbal-proposes-15-new-provinces>.

³ Government of Pakistan, Ministry of Finance, "Social Protection," in *Pakistan Economic Survey 2025–26*, Finance Division, 2026. Available at: https://www.finance.gov.pk/survey/chapter_26/16_Social_Protection.pdf.

⁴ Economic Policy and Business Development Think Tank, *Economic Analysis of Provincial Restructuring in Pakistan EPBD*, 2025. Available at: <https://epbdt.org.pk/reports/>.

2 Provincial Restructuring Proposals in Pakistan

The demand for new provinces in Pakistan has resurfaced several times in the past. In 2013, the Senate of Pakistan passed the Constitution (24th Amendment) Bill proposing the creation of a "Bahawalpur-Janoobi Punjab" province comprising the territorial regions of Multan, Bahawalpur and Dera Ghazi Khan and along with the districts of Mianwali and Bhakkar.⁵ Later, in 2019, PML-N submitted a constitutional amendment bill seeking the creation of Bahawalpur and South Punjab provinces.⁶ In the same year, MQM-P proposed restructuring the country into eight provinces, namely Punjab, South Punjab, Bahawalpur, Khyber Pakhtunkhwa, Hazara, Southern Sindh, Northern Sindh and Balochistan.

Earlier proposals were largely framed around political representation and regional demands. More recent proposals, however, have increasingly linked arguments for provincial restructuring with improved administrative efficiency and public welfare. One such proposal suggests converting the country's existing administrative divisions into provinces on the grounds that divisions already have established territorial boundaries and administrative headquarters. Despite the renewed debate, relatively little attention has been paid to the recurring fiscal cost of creating additional provinces and to how existing fiscal resources would be distributed among them.

This report therefore examines two restructuring scenarios. Scenario A divides Punjab into three provinces: Bahawalpur, South Punjab comprising Dera Ghazi Khan and Multan, and the remaining Punjab. This scenario is included because the proposed boundaries have already featured in parliamentary bills and remain the most prominent restructuring proposals. Scenario B represents a substantially broader restructuring. Under this scenario, each existing administrative division within Punjab, Sindh, Khyber Pakhtunkhwa and Balochistan is treated as a separate province. Using the Pakistan Bureau of Statistics' 2023 administrative division structure, this produces 30 provinces in total: nine in Punjab, six in Sindh, seven in Khyber Pakhtunkhwa and eight in Balochistan. This scenario is not treated as a recommended territorial arrangement; rather, it serves as a stress test of the fiscal implications of moving towards a highly decentralised provincial structure.

Together, the two scenarios allow the analysis to compare the fiscal implications of a relatively modest restructuring with those of a much more fragmented provincial system. This distinction is important because the fiscal cost of restructuring depends not only on the total number of new provinces created, but also on the size of the units among which existing public resources would have to be distributed.

3 NFC Framework and Distribution of Provincial Resources

The National Finance Commission, established under Article 160 of Pakistan's Constitution, outlines the mechanism for allocating the revenue collected at the federal level between the federal and provincial governments and among the provinces. The 7th NFC Award, established in 2009 and implemented in July 2010, continues to serve as the foundation for the existing resource allocation agreement. Although the constitution provides for the establishment of an NFC at intervals of not more than five years, the 7th Award has continued beyond its initial terms; subsequent commissions have not reached agreement on the replacement. The constitutional framework also restricts the scope for reducing

⁵ Senate of Pakistan, "The Constitution (Twenty-Fourth Amendment) Bill, 2013", as introduced in the Senate, 2013. Available at: https://senate.gov.pk/uploads/documents/1360580563_297.pdf.

⁶ Javed Hussain, "PML-N Submits Bill Seeking Creation of Bahawalpur, South Punjab Provinces in NA," Dawn, January 28, 2019. Available at: <https://www.dawn.com/news/1460373>.

provincial transfers: Article 160(3A) provides that the provincial share in any new NFC Award cannot be lower than that provided under the preceding award.⁷

The Award establishes the vertical allocation of resources between the federation and the provinces, as well as the horizontal allocation among the provinces. During the 7th NFC Award, the provinces obtained 56% of the divisible pool in FY2010-11, rising to 57.5% from FY2011-2012, with the federal government keeping 42.5%. Additionally, a sum equal to 1% of the divisible pool is allocated to Khyber Pakhtunkhwa in recognition of expenditure associated with the war on terror. Sindh receives compensation associated with the elimination of octroi and zila tax as part of the arrangements related to the award.

For the horizontal distribution, the 7th NFC Award replaced the previous population-centric method with a multi-criteria formula. Population continues to be the primary criterion with an 82% weight, while poverty and backwardness account for 10.3%, revenue generation weighs 5% and inverse population density 2.7%. The current provincial allocations are Punjab 51.74%, Sindh 24.55%, Khyber Pakhtunkhwa 14.62% and Balochistan 9.09%. Population generally reflects expenditure requirements linked to the number of residents; the poverty criterion gives additional weight to relatively underserved regions; and inverse population density accounts for the higher cost of providing services to spread-out populations. For FY2026-2027, the federal budget reports Rs 8,635.22 billion in divisible pool tax transfers to the provinces. Meanwhile, total provincial transfers account for Rs 8,848.49 billion, including the straight transfers. The divisible pool number also includes Khyber Pakhtunkhwa's additional allocation linked to war on terror. For estimation, the formula based provincial pool is therefore derived separately. Using Balochistan's allocated divisible-pool revenue of Rs 771.39 billion and its 9.09 % portion from the 7th NFC Award results in an estimated formula-based pool of around Rs 8,486 billion. This figure is employed to estimate the example distributions of the suggested provinces according to the horizontal NFC formula.

The central fiscal implication for provincial restructuring is clear: simply establishing more provinces will not increase the divisible pool. If the vertical distribution between the federation and provinces is not re-evaluated, new provinces would divide the already existing pool of resources among a large number of provincial administrations. Every new unit will simultaneously acquire its own recurring administrative and institutional costs. The current NFC framework has faced criticism for offering inadequate financial incentives. The continued dominance of population reflects that most transfers are influenced by demographic scale, whereas the modest 5% revenue criterion offers limited incentive for provinces to strengthen their own revenue mobilisation. Recent studies indicate that a significant dependence on federal transfers has led to fiscal reliance on provinces and diminished motivation for own-source revenue generation.⁸ These concerns are particularly relevant to provincial restructuring because a larger number of transfer-dependent governments could intensify existing weaknesses in the fiscal federal system.

4 Methodology

4.1 Analytical Approach

This research uses a fiscal simulation and scenario-analysis approach to analyse the economic effects of provincial restructuring in Pakistan. The analysis does not aim to assess

⁷ Mahmood Khalid, Iftikhar Ahmad, and Nasir Iqbal, "A Critical Path to Fiscal Federalism: Policy Imperatives for the NFC Award Remake", PIDE Working Paper no. 2026:03, Pakistan Institute of Development Economics, 2026. Available at: <https://pide.org.pk/research/a-critical-path-to-fiscal-federalism-policy-imperatives-for-the-nfc-award-remake/>

⁸ Ibid., 8

if establishing more provinces would enhance governance, administrative effectiveness, or public service delivery. Rather, it focuses on two specific fiscal questions: how much additional recurring costs would be required to create new provincial governments, and how the current provincial share of the divisible pool might be allocated among the suggested units based on the criteria of the 7th NFC Award. The analysis is thus more illustrative than predictive, since the actual establishment of new provinces would require political discussions, constitutional changes, and a revised agreement on fiscal arrangements between governments.

4.2 Construction of Provincial Scenarios

The proposed provincial units are created by utilising district-level population and area data from the Pakistan Bureau of Statistics' 2023 Population and Housing Census.⁹ A total of 135 districts in Punjab, Sindh, Khyber Pakhtunkhwa, and Balochistan are allocated to their corresponding administrative divisions and then illustrated in the two restructuring models. The Islamabad Capital Territory is not included as it is managed by the federal government and is not part of the current provincial NFC allocation. The Malakand Protected Area is part of Malakand Division to align with the administrative classification utilised for the scenario construction. In Scenario A, Punjab is divided into Bahawalpur, South Punjab, and the rest of Punjab, whereas the other three provinces maintain their existing borders. Scenario B considers every current administrative division within the four provinces as an individual province, leading to 30 provincial units.

4.3 Estimating the Recurring Cost of New Provinces

The cost estimation is based on the principle that only expenses associated with provincial status should be considered as an additional cost. Educational institutions, healthcare facilities, regional administration, and local policing systems currently function within the established provinces and would primarily be handed over to the new province instead of being established from the beginning. The model therefore does not consider entire expenditure currently incurred within a proposed province as a new fiscal cost. Rather, it focuses on the additional administrative tier of provincial government that would need to be established once an administrative unit gains provincial status.

The recurring expense of this provincial administrative structure is derived from current provincial budget heads. The benchmark includes the Governor and Governor's House, Provincial Assembly, Chief Minister's Secretariat and Inspection Team, Services and General Administration Department, Finance Department, Planning and Development Department, Law Department, Ombudsman, Inter-Provincial Coordination, and Information Department. Two current provinces are used to determine a realistic cost range. The Balochistan benchmark, derived from actual expenditure for FY2024–25 as reported in the province's FY2026–27 budget documents, produces a provincial administrative structure cost of around Rs 20.1 billion.¹⁰ The relevant benchmark for Khyber Pakhtunkhwa, according to revised estimates for FY2025–26, is around Rs 22.0 billion.¹¹

These regional benchmarks exclude the expenses of establishing a separate High Court. Consequently, the model incorporates Rs 2.37 billion, taking the FY2026–27 allocations for

⁹ Pakistan Bureau of Statistics, 7th Population and Housing Census 2023, Table 1, "Area, Population by Sex, Sex Ratio, Population Density, Urban Population, Household Size and Annual Growth Rate," 2023. Available at: <https://www.pbs.gov.pk/result-excel/>

¹⁰ Government of Balochistan, Finance Department, Annual Budget Statement 2026–27. Available at: <https://www.finance.gob.pk/wp-content/uploads/2026/06/ABS-2026-27-Final-.pdf>

¹¹ Government of Khyber Pakhtunkhwa, Finance Department, Annual Budget Statement 2026–27. Available at: <https://www.finance.gkp.pk/article/annual-budget-statement-2026-27>

the Islamabad High Court as a benchmark. In the higher-cost estimation, an additional Rs 1.47 billion is included for a Public Service Commission, with the Federal Public Service Commission serving as an upper-limit benchmark. This results in an estimated annual recurring expenditure of approximately Rs 22.4 billion to Rs 25.9 billion for each new province per year.¹² The lower and upper estimates should be interpreted as benchmark cases rather than the theoretical minimum and maximum cost of operating a provincial government.

Actual and revised expenditures are preferred over budget estimates for provincial benchmarks where possible since budget estimates may include reserve provisions and additional allocations that do not necessarily reflect the recurring operating expenses of the provincial administrative structure. The model also recognises that transforming current divisions into provinces might reduce certain divisional administrative costs. Savings of about Rs 0.11 billion for each commissioner office are thus accounted against the extra expense.

Provincial restructuring would also have implications for the federal structure. According to Article 59 of the Constitution, every province has equal representation in the Senate. To maintain the current representation structure as the number of provinces increase, an expansion of the Senate would also be required. The model uses the FY2026–27 Senate budget of Rs 9.67 billion to estimate this extra ongoing expense. In the upper cost scenario, Senate spending is assumed to increase in proportion to the number of senators, while the lower-cost scenario assumes that 50% of current Senate spending is fixed and won't grow with membership.

The cost exercise only includes recurring expenses. It does not measure one-off establishment expenses like building new assemblies, secretariats, official residences, or other physical infrastructure. It additionally excludes various potential recurring costs, such as individual provincial police facilities and a complete duplication of all departmental secretariats. The estimates should therefore be interpreted as the ongoing expense of a fundamental provincial institutional framework rather than the complete financial cost of territorial restructuring.

4.4 Simulation of NFC Shares: Nested Allocation

The second part of the analysis assesses how the current provincial divisible-pool allocation might be shared among the suggested new provinces. Instead of recalculating the 7th NFC Award on a national level, the research utilises a nested allocation method. With this approach, every current province keeps its present NFC horizontal share: Punjab 51.74%, Sindh 24.55%, Khyber Pakhtunkhwa 14.62 %, and Balochistan 9.09%. The current share of the parent province is allocated among its proposed successor units based on the four criteria of the 7th NFC Award: population, poverty and backwardness, revenue generation or collection, and inverse population density.

For every suggested province, the four indicators are initially stated as proportions within the current parent province. The composite share produced is determined by the following equation:

$$\text{Composite Share}_i = 0.82 (\text{Population share}) + 0.103 (\text{Poverty share}) + 0.05 (\text{Revenue share}) + 0.027 (\text{Inverse Density share}) - (\text{Eq-1})$$

¹² Government of Pakistan, Finance Division, Federal Budget 2026–27: Budget in Brief, Finance Division, 2026. Available at: https://www.finance.gov.pk/budget/budget_2026_27/Budget_in_Brief.pdf

The proposed unit's national share is subsequently calculated by multiplying this composite share by the existing NFC share of its parent province. Finally, the national share is applied to the estimated FY2026–27 formula-based provincial pool to derive an illustrative allocation in rupee terms. The nested approach is used because an exact re-estimation of the original 7th NFC Award is not possible with the currently available sub-provincial data. The indicator values used during the 2009 negotiations cannot be fully reconstructed at the level of the proposed provinces, while Baluchistan's 9.09% share incorporated a guaranteed minimum rather than representing a purely mechanical formula outcome. The resulting allocations should therefore be understood as an illustrative redistribution of existing provincial shares, rather than a re-running of the original NFC Award. An important implication of this approach is that it allows redistribution within each existing province but does not permit resources to move between the four parent provinces.

4.5 Data and Construction of NFC Criteria

Data on population and area are sourced from the 2023 Population and Housing Census. Population shares are determined by dividing the population of each proposed unit by the population of its parent province, while inverse population density is derived by dividing area by population and then transforming it into a share within the province.¹³ Poverty rates at the district level are sourced from the World Bank's Pakistan Poverty Map 2019–2020, which offers monetary poverty estimates based on PSLM 2019–20 data. Each district's poverty rate is applied to its Census 2023 population to estimate the number of poor residents. The estimated figures from these districts are combined at the proposed provincial level and represented as a portion of the estimated poor population of the parent province.

Consequently, the derived metric should be interpreted as an estimated poverty distribution instead of a new estimate of poverty incidence for 2023. When districts were later divided or renamed, the rate of the original parent district is utilised. The dataset utilized for the simulation lacks a direct World Bank estimate for five Balochistan districts including Zhob, Musakhel, Chagai, Panjgur, and Jhal Magsi, so their poverty rates are inferred by applying the population-weighted average from the other districts in their divisions. The revenue criterion introduces a separate data limitation as dependable estimates of the geographic source of federal tax revenues are unavailable at the suggested province level. In the baseline specification, the 5% revenue portion is consequently distributed in proportion to population as a neutral allocation rule. This assumption is then tested using different specifications, such as eliminating the revenue criterion, focusing the component in provincial capitals, and utilising mapped FY2024–25 FBR domestic tax revenues by relying on direct taxes, domestic sales tax, and domestic federal excise duties listed in the FBR Yearbook for FY2024-2025.

4.6 Top-Layer Cost Ratio

To assess the fiscal burden of provincial status across units of different sizes, the analysis calculates a top-layer cost ratio, defined as the estimated annual recurring cost of the new provincial government divided by the proposed province's illustrative NFC allocation:

$$\text{National NFC Share}_i = \text{Composite Share}_i \times \text{Parent Province NFC Share} - \text{Eq. (2)}$$

$$\text{Illustrative NFC Allocation}_i = \text{National NFC Share}_i \times \text{Formula-Based Provincial Pool} - \text{Eq. (3)}$$

$$\text{Top-Layer Cost Ratio}_i = \text{Annual Recurring Cost of New Provincial Government} \div \text{Illustrative NFC Allocation} \times 100 - \text{Eq. (4)}$$

¹³ *Ibid.*, 8

The ratio shows the proportion of a proposed province's formula-based NFC allocation that would be absorbed by the fixed administrative structure of provincial government before accounting for expenditure on public services. A higher ratio therefore indicates that a larger share of the unit's available NFC resources would be required simply to maintain the core institutions associated with provincial status. The ratio should not be interpreted as the share of the province's total budget devoted to administration. The denominator includes only the illustrative formula-based NFC allocation and excludes straight transfers, grants and provincial own-source revenues. It therefore represents an illustrative fiscal position based on the simulated NFC allocation, rather than a complete estimate of the financial resources available to a future province.

Data Sources

The following table enlists the data sources utilised in the analysis.

Table 1: Data Sources

Variable	Source	Reference Year
Population and Area	Population and Housing Census, Pakistan Bureau of Statistics	2023
District Poverty	Pakistan Poverty Map 2019-2020	2019-2020; dataset updated 2025
Provincial administrative structural Cost for Balochistan	Annual Budget Statement 2026-2027 and supporting budget documents, Government of Balochistan	Actual 2024-25
Provincial administrative structural Cost for KP	Government of Khyber Pakhtunkhwa, Annual Budget Statement 2026–27	Revised 2025-26
Senate, High Court and FPSC cost	Government of Pakistan, Federal Budget 2026–27: Budget in Brief	2026-27
FBR Domestic collection	Yearbook 2024-2025, FBR	2024-25

5 How the NFC Pool would be Divided

5.1 Scenario A

In Scenario A, Punjab is divided into three regions: Bahawalpur, South Punjab, and the rest of Punjab, whereas the current borders of Sindh, Khyber Pakhtunkhwa, and Balochistan remain the same. Using the nested NFC formula results in an indicative allocation of Rs 1,001.06 billion for South Punjab and Rs 534.01 billion for Bahawalpur from the formula-driven provincial pool. The rest of Punjab gets Rs 2852.59 billion.

Figure 1: Scenario A – Pakistan Regional Map



Table 2: Scenario A – Illustrative NFC Allocation

New Province	Population share	Poverty Share	Revenue Share	Inverse Density Share	Composite NFC Share	National NFC Share	Rupee Allocation Share (Rs Billion)
Bahawalpur	10.5%	16.6%	10.5%	51.4%	12.2%	6.3%	537.01
South Punjab	21.1%	35.0%	21.1%	30.3%	22.8%	11.8%	1001.06
Rest of Punjab	68.4%	48.4%	68.4%	18.3%	65.0%	33.6%	2852.59

The results indicate that an additional two provinces would maintain a significant resource base, even though their fiscal scales vary significantly. South Punjab would receive an allocation exceeding Balochistan's existing formula-based allocation of Rs 771.39 billion, while Bahawalpur would receive a smaller allocation. The results also reveal how the NFC formula modifies into a solely population-based division of Punjab by integrating differences in poverty and reverse population density.

5.2 Scenario B

The distribution becomes significantly more dispersed in Scenario B, where each current administrative division is upgraded to province status. Lahore is projected to receive the highest illustrative allocations at Rs 720.9 billion, followed by Karachi with Rs 690.84 billion,

Gujranwala with Rs 635.52 billion. At the bottom of the distribution, Loralai gets Rs 45.62 billion, Zhob Rs 49.836 billion, Rakhshan Rs 60.55 billion, and Sibi Rs 61.81 billion.

Table 3: Scenario B – Illustrative NFC Allocation

New Province	Population Share	Poverty Share	Revenue Share	Inverse Density Share	Composite NFC Share	National NFC Share	Rupee Allocation Share (Rs Billion)
Bahawalpur	10.5%	16.6%	10.5%	21.4%	11.4%	5.9%	501.35
Dera Ghazi Khan	10.1%	19.3%	10.1%	18.9%	11.3%	5.8%	495.19
Faisalabad	12.7%	11.7%	12.7%	6.9%	12.5%	6.4%	546.82
Gujranwala	14.7%	14.8%	14.7%	5.8%	14.5%	7.5%	635.52
Lahore	17.8%	7.9%	17.8%	3.2%	16.4%	8.5%	720.95
Multan	11.0%	15.7%	11.0%	6.8%	11.4%	5.9%	500.42
Rawalpindi	8.9%	4.7%	8.9%	12.2%	8.6%	4.4%	376.91
Sahiwal	6.7%	3.6%	6.7%	7.6%	6.4%	3.3%	280.72
Sargodha	7.5%	5.6%	7.5%	17.3%	7.6%	3.9%	332.77
Hyderabad	20.9%	30.2%	20.9%	20.7%	21.9%	5.4%	455.92
Karachi	36.6%	12.6%	36.6%	0.9%	33.2%	8.1%	690.84
Larkana	12.7%	12.8%	12.7%	10.6%	12.7%	3.1%	264.28
Mirpur Khas	8.3%	15.6%	8.3%	30.2%	9.6%	2.4%	200.86
Shaheed Benazirabad	10.6%	15.6%	10.6%	15.2%	11.3%	2.8%	235.09
Sukkur	10.8%	13.1%	10.8%	22.4%	11.3%	2.8%	236.31
Bannu	7.6%	8.8%	7.6%	16.2%	7.9%	1.2%	98.40
Dera Ismail Khan	7.8%	10.3%	7.8%	29.7%	8.7%	1.3%	107.37
Hazara	15.1%	5.9%	15.1%	13.8%	14.2%	2.1%	175.65
Kohat	9.2%	9.8%	9.2%	16.6%	9.5%	1.4%	117.26
Malakand	24.4%	27.9%	24.4%	15.7%	24.5%	3.6%	304.022
Mardan	11.4%	11.5%	11.4%	3.4%	11.2%	1.6%	138.397
Peshawar	24.6%	25.7%	24.6%	4.6%	24.1%	3.5%	299.552
Kalat	18.3%	24.6%	18.3%	13.9%	18.8%	1.7%	145.071
Loralai	5.8%	5.9%	5.8%	8.2%	5.9%	0.5%	45.627
Makran	12.6%	7.7%	12.6%	11.4%	12.1%	1.1%	92.991
Nasirabad	13.7%	14.7%	13.7%	3.0%	13.5%	1.2%	104.419
Quetta	28.6%	23.7%	28.6%	1.4%	27.4%	2.5%	211.058
Rakhshan	7.0%	7.0%	7.0%	39.1%	7.9%	0.7%	60.556
Sibi	7.8%	9.3%	7.8%	10.9%	8.0%	0.7%	61.819
Zhob	6.2%	7.0%	6.2%	12.0%	6.5%	0.6%	49.836

The results reveal significant differences in the financial resources accessible to the suggested provinces. Out of the 30 units, 11 would receive less than Rs 150 billion from the baseline allocation. The gap between Lahore and Loralai is especially significant, as Lahore gets over fifteen times the illustrative allocation that Loralai does. This variation illustrates

disparities in population, poverty levels, and inverse population density among divisions, but population continues to be the primary factor due to its 82% weight in the NFC formula.

Figure 2: Scenario B – Pakistan Administrative Map



5.3 The Role of Poverty

The poverty criterion changes how resources are distributed in each parent province by shifting part of the allocation to units with higher relative poverty burden. Its effect can be isolated by comparing the baseline allocation with an alternative in which the 10.3% poverty weight is distributed according to population instead. In Scenario B, the poverty criterion decreases Lahore's allocation by Rs 44.79 billion and Karachi's by Rs 51.47 billion compared to a population-based approach. In comparison, Dera Ghazi Khan acquires Rs 41.46 billion, Bahawalpur acquires Rs 27.71 billion, and Hyderabad acquires Rs 19.94 billion. The trend of redistribution aligns with the aim of the poverty and backwardness standard: less affluent regions obtain a greater portion, whereas more prosperous and densely populated urban areas forfeit some of their share. However, the effect remains limited by the weight attached to poverty in the 7th NFC Award. At 10.3%, poverty can modify the allocation meaningfully but cannot override the dominant role of population, which carries an 82% weight. The overall distribution therefore remains strongly population-driven.

5.4 Revenue Criterion and Sensitivity Analysis

The revenue criterion is challenging to implement at the divisional level due to the lack of reliable data on the actual generation of federal tax revenue. Data from FBR field offices

indicate the locations where taxes are administratively recorded, which may vary from the sites of the actual economic activities. The analysis, therefore, allocated the 5% revenue criterion based on population proportion.

Table 4: Revenue Criteria

Test Specification	Treatment of Revenue Criteria	Largest Absolute Change from the Baseline
Baseline	Revenue share follows population share	-
S1	Revenue criterion removed and remaining weights rescaled	Rs 3.767 billion
S2	Entire revenue component assigned to the parent provincial capital	Rs 180.383 billion — Lahore
S3	Revenue share based on mapped FY2024–25 FBR domestic collections	Rs 101.057 billion — Lahore

The sensitivity results show that dropping the revenue criterion has only a limited effect because it carries a weight of just 5%. Larger changes occur when revenue is concentrated geographically, particularly in Lahore and Karachi. Around 95% of FY2024–25 domestic federal tax collections mapped to Sindh's FBR field formations are recorded in Karachi-based offices, while about 64% of Punjab's are recorded in Lahore-based offices. Hyderabad, despite accounting for 21% of Sindh's population, accounts for only 1.6% of mapped collections. These figures reflect administrative collection locations rather than the geographic origin of economic activity. The results therefore suggest that a collection-based revenue criterion would disproportionately favour major administrative and corporate centres, although population would remain the dominant driver of the overall NFC allocation.

6 What Additional Provinces Would Cost?

6.1 The Top Layer is a Fixed Cost

The cost analysis indicates that the top-level of provincial government function primarily as the fixed institutional expense. Although some departments differ in size, the provincial status still requires a minimum political, administrative and judicial structure. This is evident, when comparing Khyber Pakhtunkhwa and Balochistan. KP has an estimated population of around 40.9 million, while Balochistan has about 14.9 million; however, the estimated cost of their core provincial structures is relatively similar at Rs 22 billion and Rs 20 billion, respectively. This reflects a much higher per-capita administrative burden in small provinces. This implies that the financial burden of restructuring is heavily influenced by the number of provincial governments established. A smaller province would still need a Governor, Chief Minister, Provincial Assembly, central secretariat, finance and planning functions, law department, and other essential institutions. Consequently, administrative expenses do not decrease in proportion to the population.

6.2 Does the Existing Divisional Structure Reduce the Cost?

The advocates of division-based provincial restructuring maintain that a significant portion of the required administrative structure is already present at the division level. It is argued that the current divisional structure should be upgraded into the provincial bodies, thus reducing the costs.¹⁴ However, the scale of the current divisional administration is significantly smaller than the institutional structure required for provincial status. The annual expenditure of Balochistan's commissioner offices amounts to less than Rs 1 billion, while the estimated recurring cost of the provincial administrative structure is above Rs 22 billion. Converting a division into a province status would not merely substitute one commissioner office for another administrative unit; it would require the establishment of a provincial assembly, a Governor's office, a Chief Minister's Secretariat, a central secretariat, finance and planning departments, judicial bodies, and various provincial functions. The relevant fiscal comparison is therefore between the expense of the current divisional administration and the total expense of several new provincial governments.

6.3 The Total Recurring Cost

Applying the projected recurring cost of Rs 22.4 billion to Rs 25.9 billion for each new province produces significantly varied fiscal results in the two scenarios.

Table 5: Incremental Annual Cost of New Provinces

Indicator	Scenario A: 6 provinces	Scenario B: 30 provinces
Number of new provinces	2	26
Provincial government cost- low	Rs 44.8 billion	Rs 582.4 billion
Provincial government cost- high	Rs 51.8 billion	Rs 673.4 billion
Additional Senate Cost- Low	Rs 2.31 billion	Rs 30.11 billion
Additional Senate Cost- High	Rs 4.6 billion	Rs 60.2 billion
Commissioner- office savings	(Rs 0.22 billion)	Rs (3.3 billion)
Net Additional Recurring Cost- low	Rs 46.9 billion	Rs 609.2 billion
Net Additional Recurring Cost- high	Rs 56.2 billion	Rs 730.3 billion
Net cost as share of formula based provincial pool- low	0.55%	7.18%
Net cost as share of formula based provincial pool- high	0.66%	8.61%

Source: Author's Construct

The estimated fiscal cost varies significantly between the two restructuring scenarios. In Scenario A, the establishment of two more provinces increases annual recurring provincial-government expenditure by approximately Rs 44.8–51.8 billion. Following the inclusion of the additional cost for Senate representation and the savings from closure of commissioner offices, the net recurring cost increases to about Rs 46.9–56.2 billion, representing roughly

¹⁴ *Dunya News*, "Mian Amer Mahmood Proposes New Provinces to Improve Governance, Public Services," July 31, 2026. Available at: <https://dunyanews.tv/en/Pakistan/965451-mian-amer-mahmood-proposes-new-provinces-to-improve-governance-public>.

0.55–0.66% of the province's formula-based pool. In Scenario B, the establishment of 26 new provincial governments raises the projected provincial-government expenditure to around Rs 582.4–673.4 billion. Incorporating the related Senate expansion and savings from the commissioner's office results in a net ongoing expense of about Rs 609.2–730.3 billion, which equals roughly 7.18–8.61 % of the formula-driven provincial pool. The findings indicate that the fiscal burden increases significantly with the number of provincial governments created. Provincial restructuring would also affect the federal legislature because Article 59 provides for equal provincial representation in the Senate. If the existing representation structure were retained, Scenario B would increase the number of senators from 96 to 694, which is why the cost estimates include an additional Senate component. A substantial increase in the number of provinces would therefore also require reconsideration of the existing structure of Senate representation. The estimation includes only the recurring costs included in the main analysis. It does not include the full cost of separate provincial police headquarters, replications of all line-department secretariats, or one-off establishment expenses such as new assembly buildings, secretariats and official residences. The resulting figures therefore provide a lower-bound estimate of the recurring fiscal burden associated with creating new provinces, rather than a complete measure of the total cost of restructuring.

7 Can Small Provinces Pay for Themselves?

The fiscal burden of provincial status varies substantially across the proposed units. This is measured through the top-layer cost ratio, which compares the estimated recurring cost of a provincial government with the unit's illustrative NFC allocation. The results show a clear scale effect: the fixed cost of provincial government absorbs a much larger share of resources in smaller provinces than in larger ones.

Table 6: Fiscal Sustainability of Proposed Provinces under Scenario B

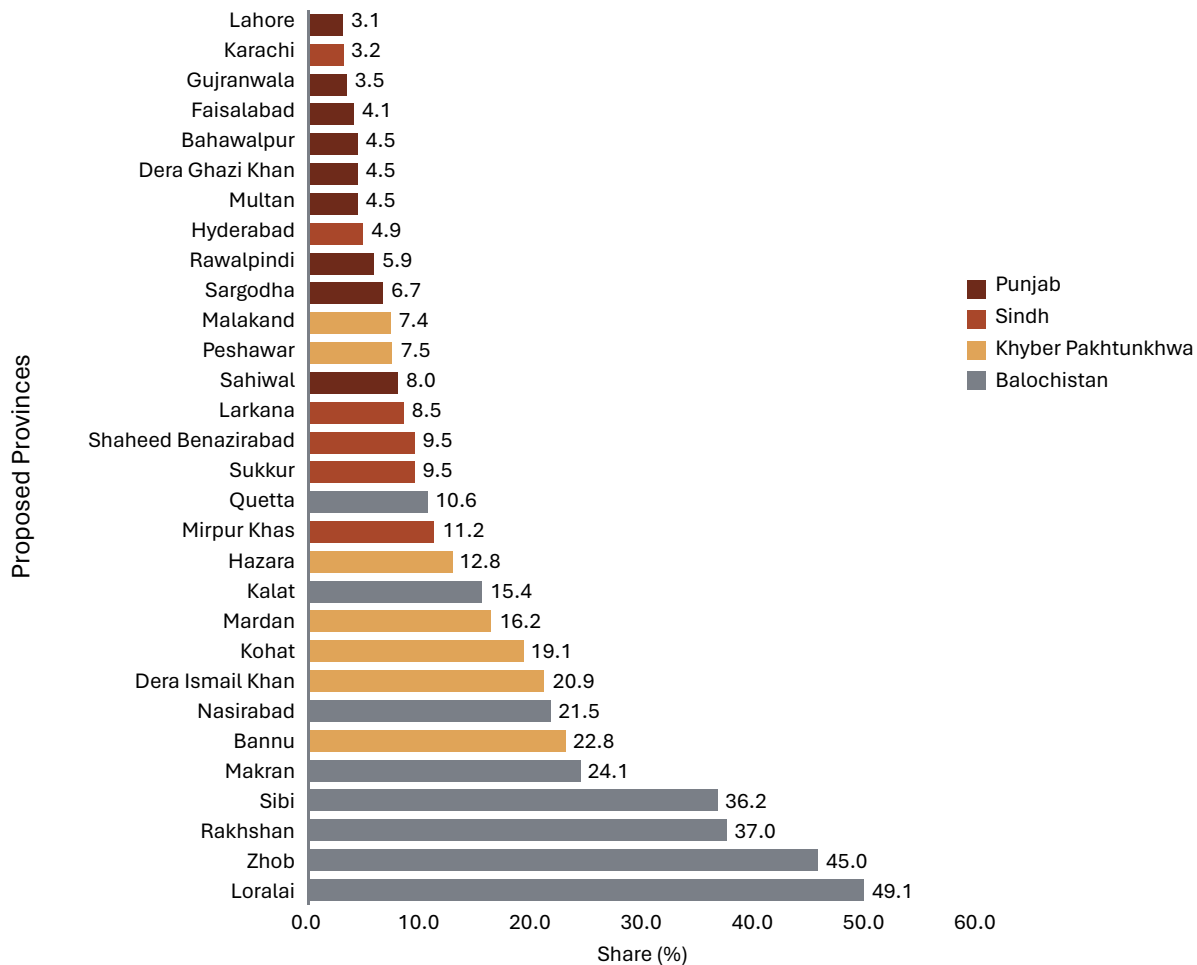
Unit	Population (million)	Illustrative NFC Allocation (Rs Billion)	Share Spent on Provincial Government (%) based on low and high recurring cost
Bahawalpur	13.40	501.35	4.47–5.17
Dera Ghazi Khan	12.89	495.18	4.52–5.23
Faisalabad	16.23	546.82	4.10–4.74
Gujranwala	18.78	635.52	3.52–4.08
Lahore	22.77	720.94	3.11–3.59
Multan	14.09	500.42	4.48–5.18
Rawalpindi	11.41	376.91	5.94–6.87
Sahiwal	8.53	280.71	7.98–9.23
Sargodha	9.59	332.76	6.73–7.78
Hyderabad	11.66	455.92	4.91–5.68
Karachi	20.38	690.84	3.24–3.75
Larkana	7.09	264.28	8.48–9.80
Mirpur Khas	4.62	200.85	11.15–12.89
Shaheed Benazirabad	5.93	235.09	9.53–11.02
Sukkur	6.01	236.31	9.48–10.96
Bannu	3.09	98.39	22.76–26.32

Table 6: Fiscal Sustainability of Proposed Provinces under Scenario B (continued)

Unit	Population (million)	Illustrative NFC Allocation (Rs Billion)	Share Spent on Provincial Government (%) based on low and high recurring cost
Dera Ismail Khan	3.19	107.36	20.86–24.12
Hazara	6.19	175.65	12.75–14.74
Kohat	3.75	117.26	19.10–22.09
Malakand	9.96	304.02	7.37–8.52
Mardan	4.64	138.39	16.19–18.71
Peshawar	10.04	299.55	7.48–8.65
Kalat	2.72	145.07	15.44–17.85
Loralai	0.87	45.62	49.09–56.76
Makran	1.88	92.99	24.09–27.85
Nasirabad	2.04	104.41	21.45–24.80
Quetta	4.26	211.05	10.61–12.27
Rakhshan	1.04	60.55	36.99–42.77
Sibi	1.16	61.81	36.23–41.90
Zhob	0.93	49.83	44.95–51.97

To evaluate fiscal sustainability, this report uses a 10% screening benchmark based on the low recurring-cost estimates. A suggested province is deemed financially appropriate for provincial status if the recurring expenses of its essential provincial government are below 10% of its projected NFC allocation. For the proposed provincial units with low recurring cost greater than 10, are considered to be financially inappropriate for upgradation to provincial status. Based on this benchmark, 16 out of the 30 suggested provinces have a low recurring cost of 10% or below, whereas 14 proposed provinces have a higher recurring cost. These proposed units include Mirpur Khas, Bannu, Dera Ismail Khan, Hazara, Kohat, Mardan, Kalat, Loralai, Makran, Nasirabad, Quetta, Rakhshan, Sibi, and Zhob. The weight is especially significant for the smallest suggested provinces: the main provincial framework would take up approximately 49% of Loralai's hypothetical NFC share, 45% of Zhob's, and 37% of Rakhshan's, even with the conservative cost projection. In comparison, the associated burden for Lahore and Karachi is merely about 3–4%. The results imply that the financial rationale for establishing new provinces is heavily reliant on the size of the proposed entities. Restructuring provinces with adequately large fiscal bases may be feasible, but elevating smaller divisions to provincial status could consume a significant portion of their available transfers merely to support the fundamental institutions of provincial governance. The 10% benchmark thus offers a feasible criterion for differentiating between proposals that can cover the ongoing institutional expenses of provincial status and those where the administrative load would be excessively heavy.

Figure 3: Share of NFC Spent on Recurring Provincial Administrative Cost



The highest cost ratios are concentrated in some of the least populated and least densely settled regions, particularly in Balochistan. This creates an important fiscal trade-off. Provincial restructuring may be intended to improve representation and access to government in geographically remote areas, but these are also the areas where a separate provincial structure would consume the largest share of available formula-based transfers. Smaller units would therefore have comparatively less fiscal space remaining for service delivery and development expenditure after financing their core provincial institutions. This finding is not driven by a single assumption about the NFC formula. Alternative treatments of the revenue criterion change the allocation of individual provinces, particularly major collection centres such as Lahore and Karachi, but do not eliminate the broader relationship between provincial size and administrative burden. Similarly, alternative poverty imputations for missing Balochistan observations change individual allocations only marginally, with the largest difference of around Rs 1 billion.

The results are also consistent with the broader literature on administrative fragmentation. Grossman and Lewis (2014) show that the proliferation of administrative units can weaken administrative capacity and increase dependence on higher levels of government. The calculations presented here illustrate the fiscal side of the same problem: as provincial units become smaller, a larger proportion of their available transfer resources is absorbed by the fixed cost of maintaining provincial institutions.¹⁵ The economic case for new provinces

¹⁵ Guy Grossman and Janet I. Lewis, "Administrative Unit Proliferation," *American Political Science Review* 108, no. 1 (February 2014): 196–217. Available at: <https://doi.org/10.1017/S0003055413000567>.

therefore depends not only on whether restructuring can improve governance, but also on whether the proposed units can sustain the recurring institutional costs associated with provincial status.

8 Policy Recommendations

The results suggest that provincial restructuring should be evaluated not only in political and administrative terms, but also through a clear fiscal framework. The following recommendations emerge from the analysis.

- When the main objective is to improve access to government and public services, stronger local governments should be considered on a priority basis rather than the creation of new provinces. Empowered district and municipal governments can bring decision-making closer to citizens without requiring the full duplication of provincial institutions. Greater administrative and fiscal devolution at the local level may therefore address some of the governance concerns associated with large provinces at a lower recurring institutional cost.
- Any proposal for creating new provinces should include a formal fiscal costing exercise before constitutional or legislative changes are pursued. The costing should estimate the recurring expenditure required for the Governor, Chief Minister, Provincial Assembly, secretariat, High Court and other core institutions, together with the likely NFC resource envelope of each proposed unit. This would make it possible to assess whether the expected administrative benefits justify the additional recurring burden.
- A 10 percent fiscal screening benchmark should be applied when assessing proposed provinces. Under this benchmark, the recurring cost of the core provincial government should not exceed 10 percent of the proposed province's illustrative NFC allocation under the low-cost estimate. Proposed units exceeding this threshold should not be considered fiscally suitable for provincial status without reconsidering their boundaries, fiscal base or institutional structure.
- The design of new provinces should take fiscal scale into account. The analysis shows that the fixed cost of provincial government becomes substantially heavier as the size of the proposed unit declines. Larger proposed provinces such as South Punjab, Lahore and Karachi would absorb only a small share of their illustrative NFC allocations in core administrative costs, while some smaller units would devote a much larger proportion of their resources to maintaining provincial institutions. This does not imply that small provinces are necessarily unviable, but it does mean that provincial boundaries should not be drawn without considering the size of the available fiscal base.
- Provincial restructuring should be accompanied by a review of the NFC framework. The current formula remains heavily dependent on population. If the number of provinces increases substantially, these design issues would become more important. Any future NFC arrangement should therefore consider how to balance population, poverty, geographic constraints and incentives for stronger provincial own-source revenue mobilisation.
- Finally, provincial restructuring should be treated as part of a wider reform of Pakistan's system of intergovernmental finance rather than as a stand-alone administrative change. The fiscal consequences of new provinces would depend not only on how many units are created, but also on how resources, responsibilities and revenue-raising powers are distributed across federal, provincial and local governments.

9 Conclusion

The economic case for creating new provinces in Pakistan depends not only on the potential administrative and political benefits of restructuring, but also on the recurring fiscal obligations that accompany provincial status. This study shows that the fiscal cost of creating new provinces is shaped primarily by the number and size of the units established. Under the limited six-province scenario, the additional recurring burden remains relatively modest, while South Punjab and Bahawalpur retain sizeable illustrative NFC allocations. In contrast, converting all existing administrative divisions into provinces produces a much higher recurring cost and creates substantial differences in the fiscal resources available to individual units, raising doubts on the fiscal sustainability of this proposal. The analysis also highlights the importance of fixed institutional costs. A provincial government requires a minimum political, administrative and judicial structure irrespective of population size. Consequently, these costs represent only a small share of the resources available to large proposed provinces but absorb a much greater proportion of the NFC allocation of smaller units. The highest burdens are concentrated in some of the least populated divisions, where the cost of provincial government could consume more than one-third and, in some cases, around half of the illustrative NFC allocation. Using the 10 percent fiscal sustainability benchmark applied in the report, 14 of the 30 proposed provinces under Scenario B exceed the threshold even under the low recurring-cost estimate, while 16 remain at or below it. The broader fiscal implication is that creating additional provinces would not automatically increase the resources available to the provincial tier. Under the existing NFC framework, the available formula-based pool would instead be distributed among a larger number of provincial governments, each of which would have to finance its own recurring institutional structure. Although restructuring would also generate some additional expenditure at the federal level, particularly through changes in Senate representation, the larger fiscal pressure would arise at the provincial level.

This pressure would be higher for proposed provinces with relatively small NFC allocations and limited revenue generation capacity. Where a larger share of available resources is absorbed by the recurring cost of provincial institutions, less fiscal space would remain for other provincial expenditures, including education, health, infrastructure and development spending. Smaller and fiscally weaker provinces would therefore face a greater risk that institutional costs crowd out resources available for public service delivery. This indicates that fiscal sustainability varies considerably across proposed units and that provincial status may impose a disproportionately high administrative burden on smaller fiscal bases. The findings therefore suggest that provincial restructuring should not be assessed solely on the basis of political or administrative considerations. Proposed units should also be evaluated against their expected fiscal resource base and the recurring cost of maintaining core provincial institutions. Any future restructuring proposal should therefore be accompanied by transparent fiscal costing and a clear assessment of the resource base of the proposed provinces. At the same time, where the primary objective is improved access to government and public services, strengthening fiscally and administratively empowered local governments should also form part of the policy discussion. Provincial restructuring should ultimately be considered within the broader framework of Pakistan's intergovernmental fiscal system rather than as an administrative change in isolation.

Who is going to bear the cost of delays? Responsibility needs to be fixed without delay

Dr Khalil Ahmad

Pakistan is no country for doing things promptly and efficiently. And what makes it complicated is the fact that no one is responsible for anything done badly or delayed indefinitely and unduly. The ones who design a mechanism of accountability are the same persons who do not do things diligently. Under the circumstances, whoever is somehow caught in the net is but for political point-scoring.

Here is the evidence: “After more than 30 years of delay, the government has announced the auction process for a notional 800 MW capacity to gradually move towards a competitive energy market and is currently engaging with the private sector to finalize the bidding schedule.” (See Dawn, July 14, 2026)

It’s a 30-year delay, and it’s just a usual happening!

The question is, how much did this delay of 30 years cost to the people? Any shame? Any accountability?

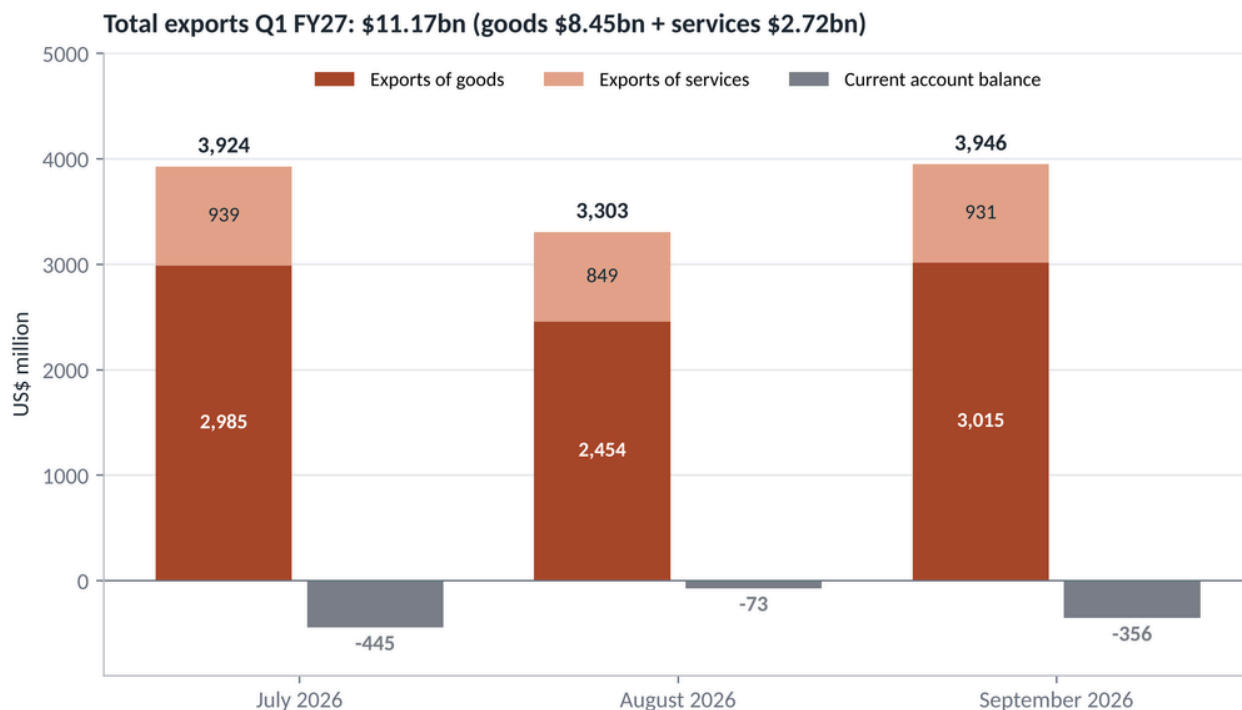
As for Discos’ privatization, there is too much hubbub on this front. Let us see what comes out of this noise and when. The point to be noted in this regard: The government tells the IMF nine electricity distributors will be privatized by Dec 2027. Another point to be noted that reminds me of the IPP’s agreements is that the prospective buyers of Discos are demanding fixed returns and that in US dollars. Are they going to repeat the uncompensable mistake?

The case of Pakistan Steel Mills is not yet settled; now the government wants to revive it; the plan to liquidate it stands abandoned. Another important thing costing the people is the already privatized PIA’s debt, and taxpayers are to pay Rs.30 billion to retire it.

What relevant information was reported in various newspapers regarding the incumbent government’s efforts to limit its footprint in the economy from July 11 to October 10, 2026, has briefly been arranged with issues and entities collated together.

Macroeconomic Analysis

Figure 4: External Sector of Pakistan



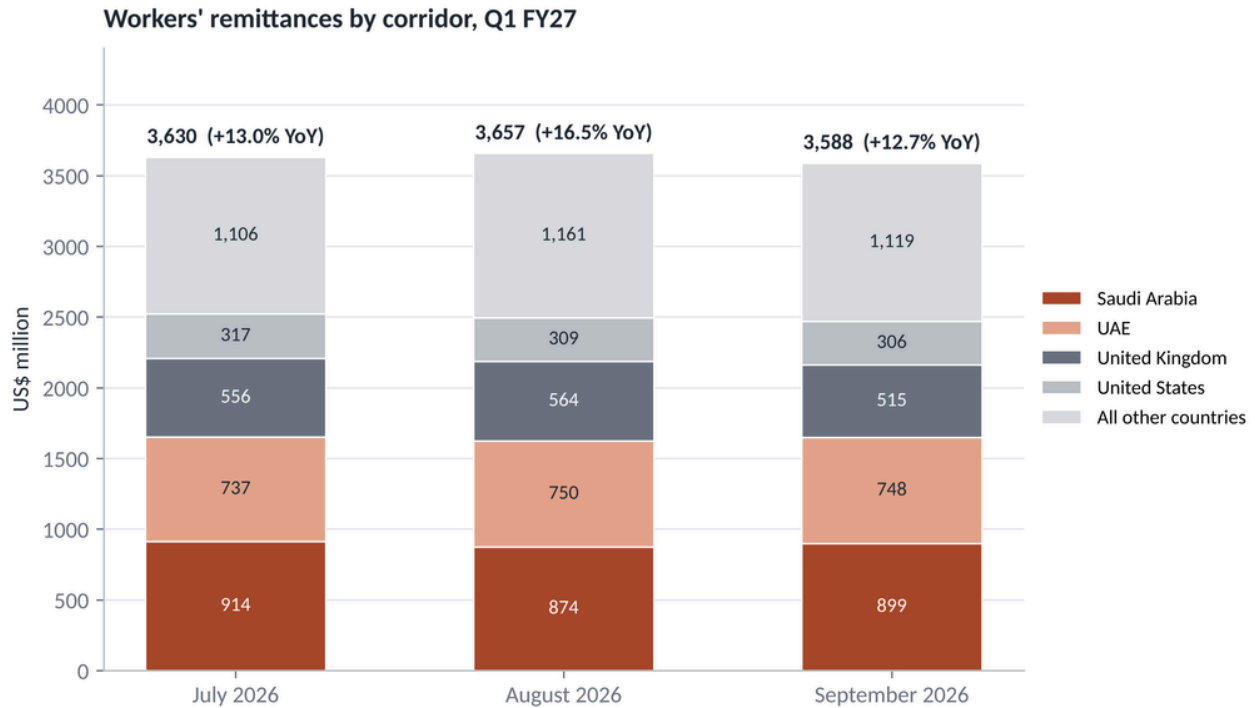
Source: SBP, PBS¹⁶

- Total exports of goods and services reached \$11.17bn in Q1 FY27, up 11.0% from \$10.07bn in Q1 FY26. Goods exports rose 7.7% to \$8.45bn, while services exports grew faster, by 22.8% to \$2.72bn, and now make up 24% of total exports.
- September was the strongest month, with goods exports of \$3.02bn (15.5% above September 2025). PBS data show rice leading the gain (non-basmati +131% and basmati +169% YoY in rupee terms) and readymade garments up 18.5%, while bed wear and cotton cloth declined.
- Imports of goods and services grew faster than exports (14.6% to \$21.33bn), so the current account stayed in deficit in every month: -\$445mn in July, -\$73mn in August and -\$356mn in September. The Q1 deficit of \$874mn was 15.8% wider than a year earlier.
- Policy Note: Export growth was real, but imports grew faster, which is why the current account deficit widened despite record remittances. Services exports, now a quarter of the total, need tax certainty and simpler foreign exchange retention rules for IT and freelance earnings. The rice surge is driven by price and volume and may not last; durable gains require market-based industrial energy pricing and diversification into pharmaceuticals, engineering goods and processed foods.

¹⁶ SBP, Summary Balance of Payments (BPM6), September 2026:

https://www.sbp.org.pk/assets/document/Balancepayment_BPM6.pdf (July derived from Q1 totals). PBS, Advance Release on External Trade, September 2026: https://www.pbs.gov.pk/wp-content/uploads/2020/07/Release_Statement_September-2026.pdf

Figure 5: Workers' Remittances in Pakistan

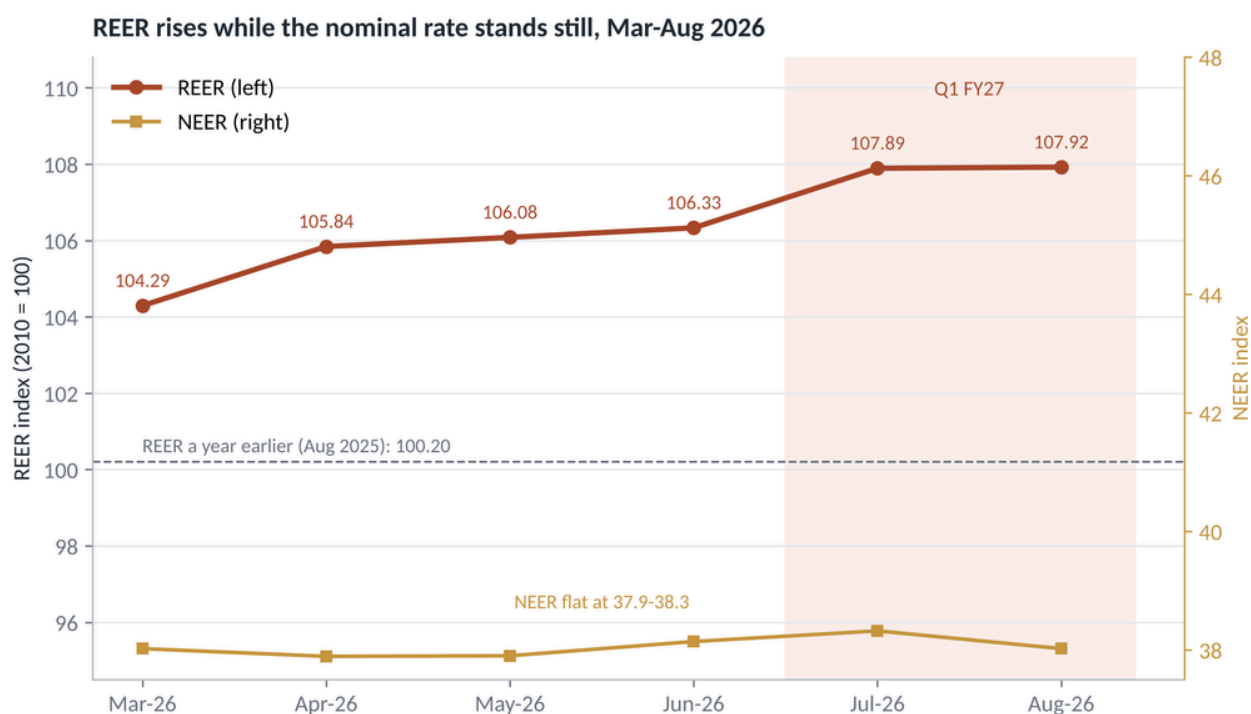


Source: SBP¹⁷

- Remittances totalled \$10.88bn in Q1 FY27, up 14.0% from \$9.54bn. Every month exceeded \$3.5bn, with year-on-year growth of 13.0%, 16.5% and 12.7% respectively.
- Saudi Arabia (\$2.69bn) and the UAE (\$2.24bn) together supplied 45% of the quarter's inflows. September eased 1.9% from August, mainly because inflows from the UK fell from \$564mn to \$515mn.
- Remittances were 29% larger than goods exports and financed 61% of the goods import bill, which shows how much the external account relies on labour export rather than goods export.
- Policy Note: Maintaining remittance inflows should remain a priority through low-cost digital channels, diaspora products and bilateral labour agreements, but remittances cannot substitute for a competitive export sector. Overseas employment needs to be diversified beyond the GCC, while export competitiveness is strengthened through productivity gains, lower trade costs and a stable policy environment.

¹⁷ SBP, Press Releases on Workers' Remittances for July, August and September 2026:
<https://www.sbp.org.pk/assets/documents/press-release/PR-10-August-2026.pdf>;
<https://www.sbp.org.pk/assets/documents/press-release/PR-09-September-2026.pdf>;
<https://www.sbp.org.pk/assets/documents/press-release/PR-09-October-26.pdf>

Figure 6: Real Effective Exchange Rate of Pakistan, March–August

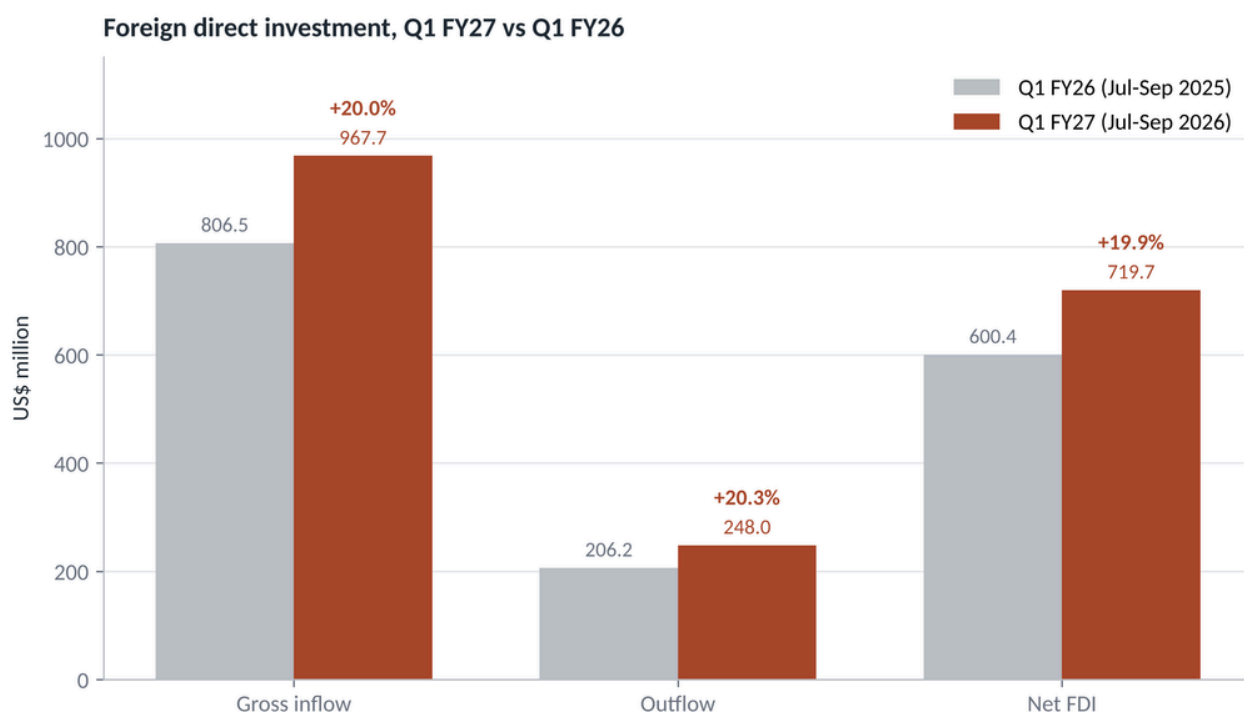


Source: SBP¹⁸

- REER rose from 104.29 in March to 107.92 in August 2026, 7.7% above August 2025 (100.20), while NEER stayed within a narrow 37.89–38.32 range.
- This implies that the nominal exchange rate is not moving, but domestic inflation of 9–11% is making Pakistan's goods more expensive than those of its major trading partners. Export competitiveness is eroding without any visible change in the exchange rate.
- Policy Note: Greater exchange rate flexibility would help preserve external competitiveness, but may increase imported inflation. Holding the nominal rate stable while inflation remains in double digits acts as a tax on exporters. The most sustainable solution is to reduce domestic inflation and raise productivity, so that competitiveness does not depend on exchange rate adjustments alone.

¹⁸ SBP, Monthly Statistical Bulletin, September 2026 (NEER and REER indices; August 2026 provisional): https://www.sbp.org.pk/assets/documents/bulletin/MSB_September_2026.pdf. September 2026 values are not yet published in the bulletin.

Figure 7: Foreign Direct Investment in Pakistan, July–September



Source: SBP¹⁹

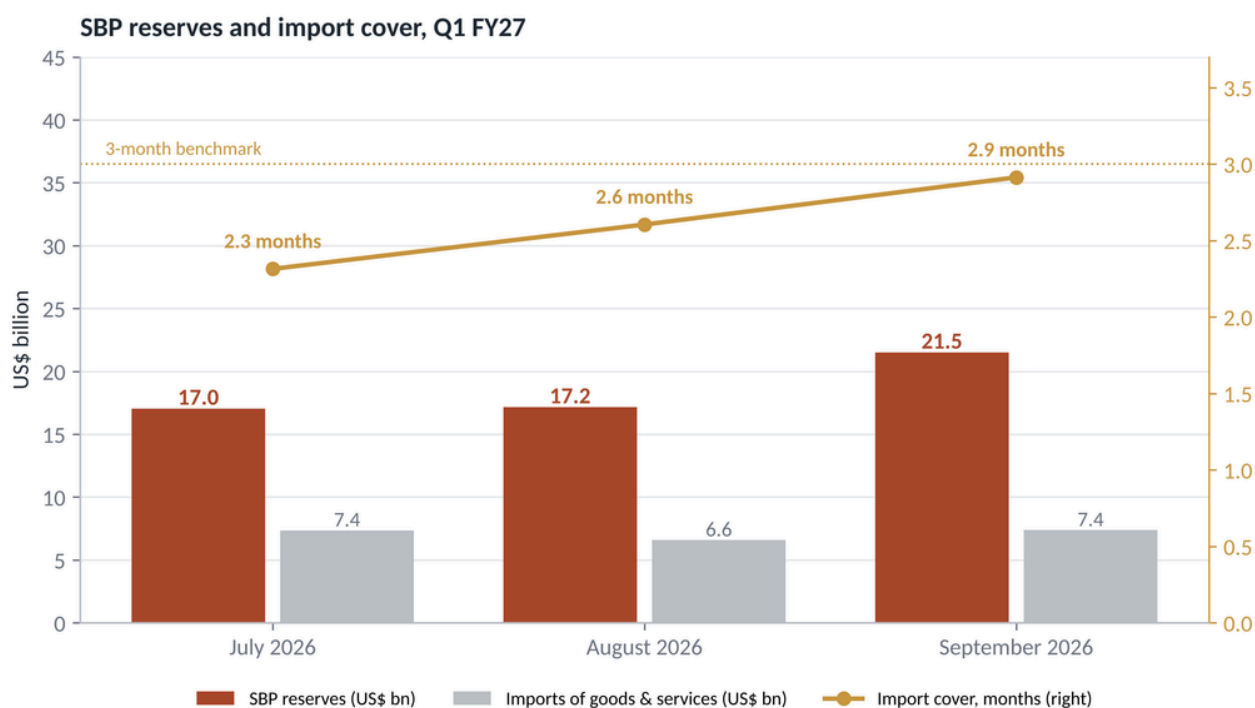
- Net FDI rose 19.9% to \$719.7mn in Q1 FY27. Gross inflows of \$967.7mn lost \$248.0mn, about a quarter, to outflows. At this pace, annual FDI would remain below \$3bn, around one-fifteenth of remittances.
- Inflows are concentrated: Canada (\$229.2mn) and China (\$197.5mn) supplied 59% of net FDI. In September, mining (\$72.9mn), financial services (\$58.5mn) and power (\$31.1mn) attracted the largest net inflows.
- Policy Note: Investment responds to predictability more than to concessions. Tax holidays and SEZ incentives have not moved the needle because the underlying investment climate, regulatory uncertainty, energy costs and contract enforcement remain unattractive relative to regional peers. Corporate tax rationalisation, regulatory simplification and transparent dispute-resolution mechanisms are prerequisites for attracting larger and more diversified FDI.

¹⁹ SBP, Net Inflow of Foreign Direct Investment by country, July–September FY27 (provisional):

<https://www.sbp.org.pk/assets/document/Netinflow.pdf>; sector data:

https://www.sbp.org.pk/assets/document/Foreign_Dir.pdf

Figure 8: SBP Foreign Exchange Reserves & Import Cover

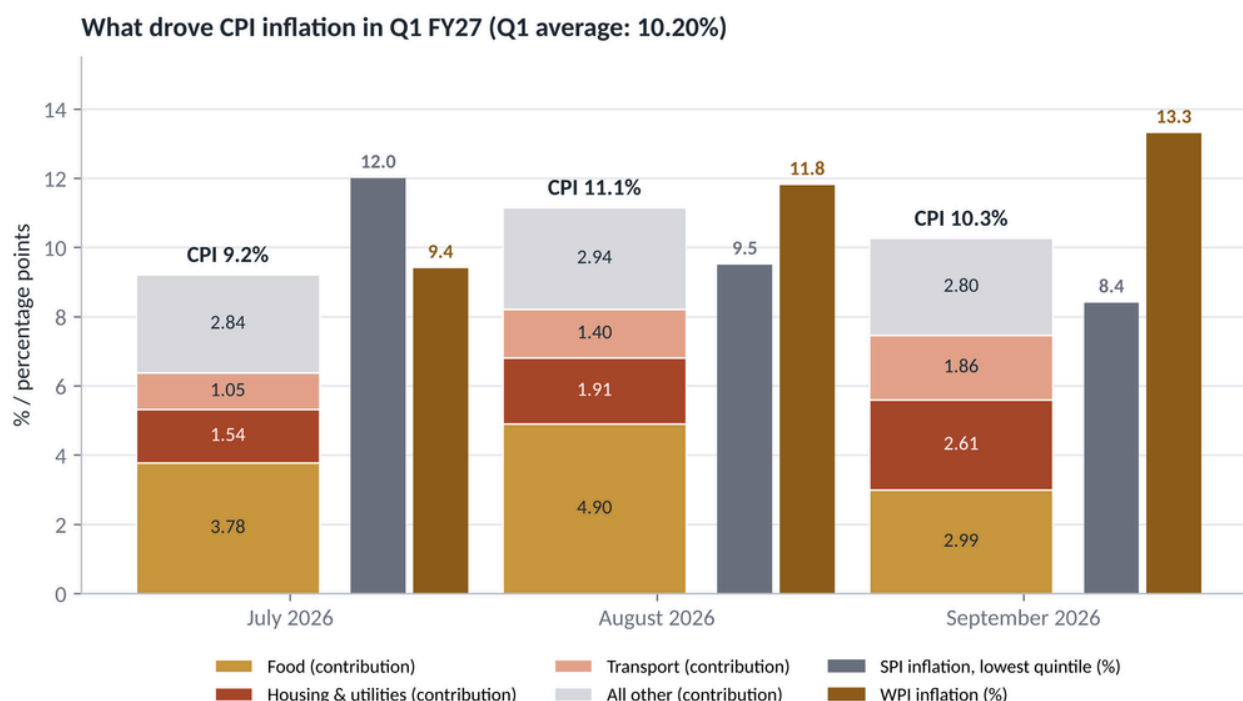


Source: SBP²⁰

- SBP reserves rose by \$4.36bn in September to \$21.51bn. SBP's balance of payments shows \$2.89bn of inflows into government debt securities that month, in line with the \$3bn Eurobond issued in September.
- Over the quarter, reserves increased by \$3.11bn even though the current account drained \$0.87bn and the government repaid \$2.08bn of official loans against \$1.23bn of new disbursements. The build-up was financed by borrowing, not by export earnings or investment.
- Import cover improved from 2.3 months in July to 2.9 months in September, but remains below the three-month benchmark.
- Policy Note: Build earned reserves through export competitiveness and sustained current account surpluses. Bond proceeds buy time but add to future repayments; bilateral deposits should be re-profiled into longer-term arrangements to ease rollover pressure. At under three months of import cover, one missed rollover or external shock could compress the buffer to critical levels.

²⁰ SBP, Summary Balance of Payments (BPM6), September 2026 and Monthly Statistical Bulletin, September 2026; SBP Monetary Policy Statement, 14 September 2026. Reserves exclude CRR/SCRR, net ACU and foreign currency cash. Import cover = SBP reserves / monthly imports of goods and services.

Figure 9: CPI, SPI & WPI Inflation, July–September

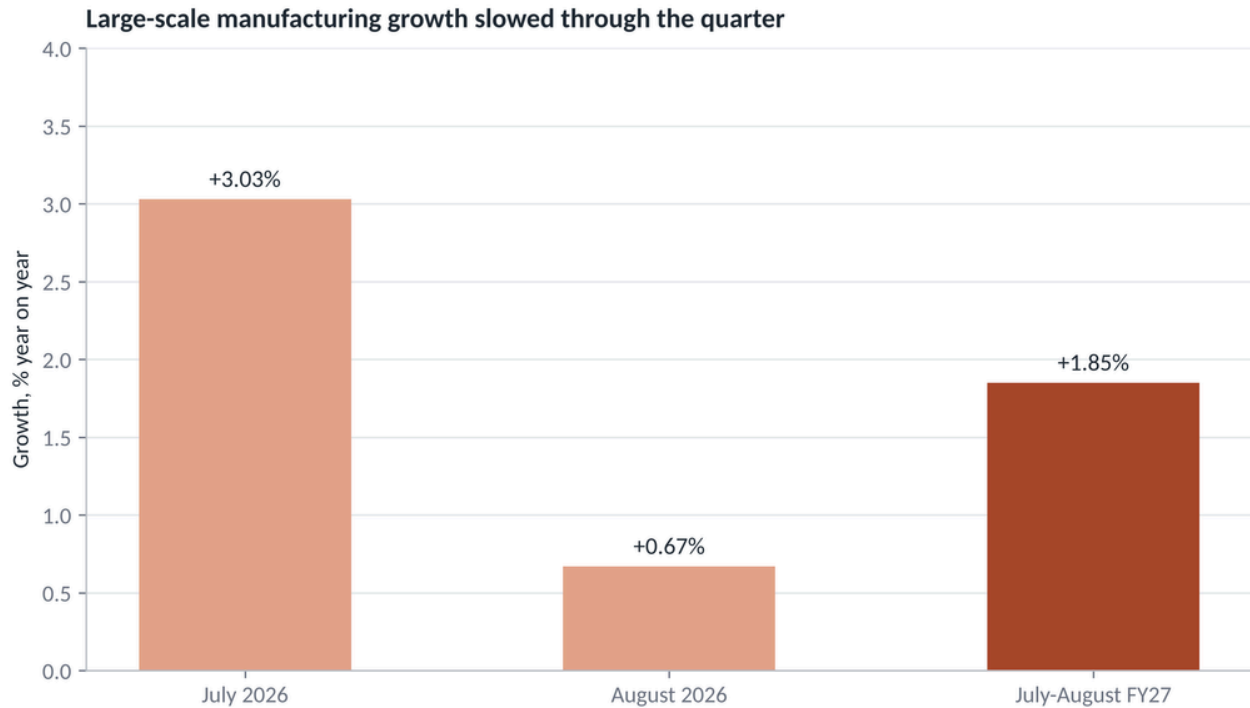


Source: PBS²¹

- CPI inflation averaged 10.20% in Q1 FY27, against 4.30% a year earlier, peaking at 11.15% in August before easing to 10.26% in September.
- Food was the largest contributor over the quarter (3.9 of 10.2 points on average), but its contribution fell from 4.9 points in August to 3.0 points in September as food inflation eased from 13.9% to 8.2%.
- Energy-linked groups rose every month: housing and utilities moved from 1.5 to 2.6 points and transport from 1.1 to 1.9 points, as transport inflation climbed from 15.1% to 27.4%. Core inflation remained sticky at 8.6%.
- SPI for the lowest-income quintile eased from 12.0% to 8.4%, but WPI rose from 9.4% to 13.3%, signalling cost pressure that has yet to reach consumer prices. The SBP held the policy rate at 11.5%.
- Policy Note: Coordinate fiscal and monetary policy. With WPI at 13.3% and core inflation above 8.5%, an early rate cut would risk second-round effects. Allow energy prices to adjust through a transparent mechanism, accompanied by targeted support for the bottom two income quintiles through BISP. Broad-based price controls are fiscally expensive, distortionary and regressive.

²¹ PBS, Monthly Review on Price Indices for July, August and September 2026 (National CPI by group, impact in percentage points; SPI for the lowest quintile; WPI): <https://www.pbs.gov.pk/wp-content/uploads/2020/07/Monthly-Review-September2026.pdf>

Figure 10: Large Scale Manufacturing

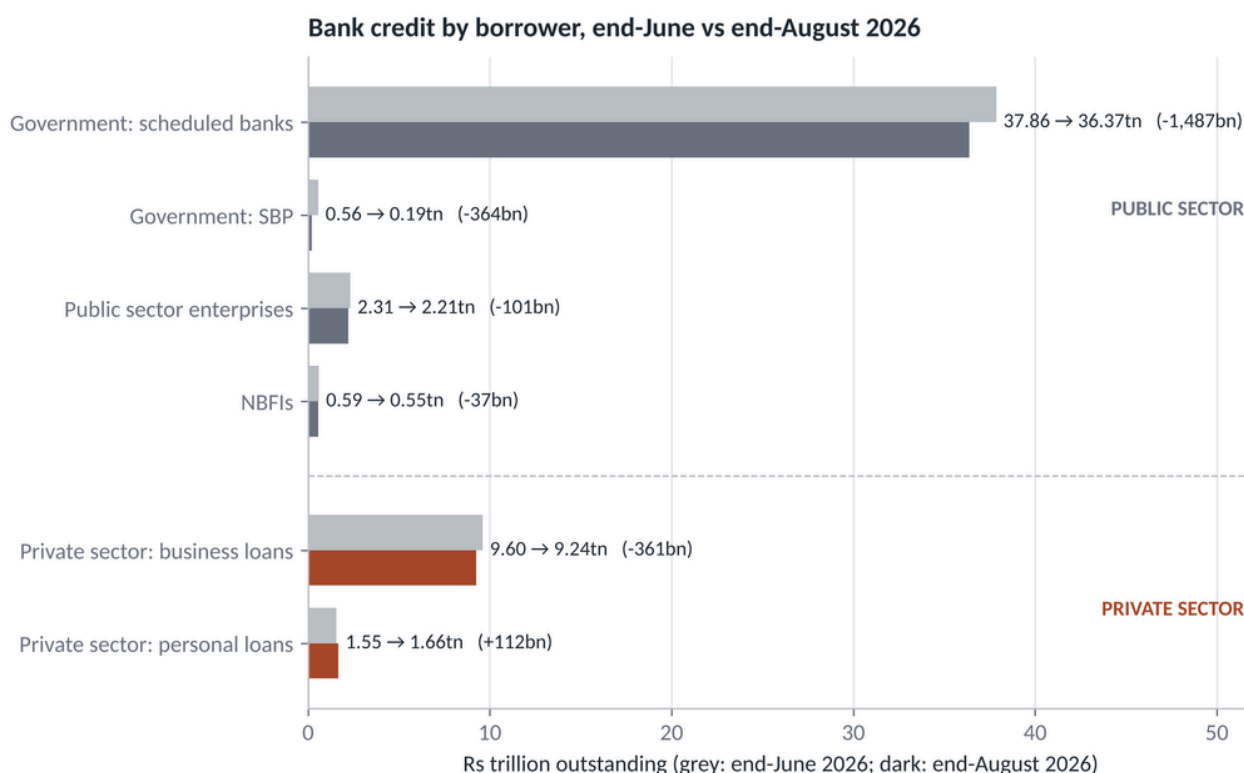


Source: PBS²²

- Quantum index of manufacturing fell from 119.1 in July to 113.19 in August, a 4.96% month-on-month decline. For July–August FY27, the QIM averaged 116.14 against 114.03 a year earlier.
- LSM growth slowed from 3.03% YoY in July to 0.67% in August, taking July–August growth to 1.85%, well below the 5.0% recorded for FY26.
- The slowdown reflects higher input costs, with WPI inflation at 11.8–13.3% led by fuel and electricity, and tight financing conditions at a policy rate of 11.5%.
- Policy Note: Structural supply-side reforms, including market-based industrial energy pricing, regulatory simplification and better access to credit, are needed to decouple manufacturing from monetary and energy price cycles. Support should be reoriented toward export-generating sectors rather than domestically oriented ones whose growth depends on consumer demand cycles.

²² PBS, Summary of Provisional Quantum Index Numbers of Large Scale Manufacturing Industries (QIM) for July and August 2026: <https://www.pbs.gov.pk/summary-of-provisional-quantum-index-numbers-of-large-scale-manufacturing-industries-qim-for-aug-2026-2/>

Figure 11: SBP Credit to Government, Public & Private Sector

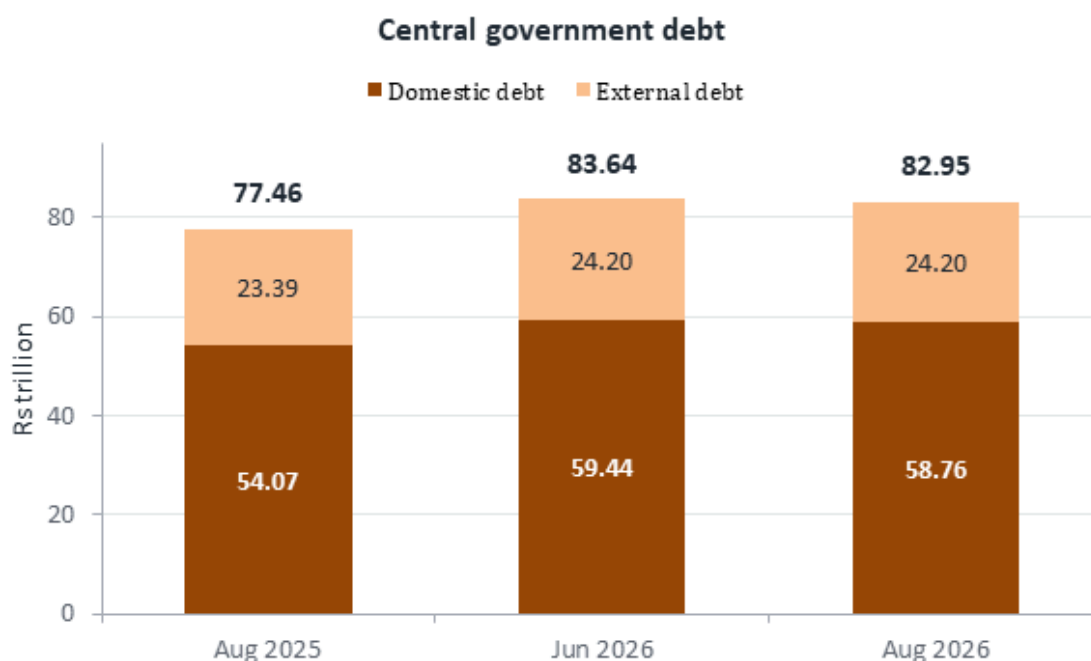


Source: SBP²³

- The graph compares credit outstanding to each borrower at End-June and end-August 2026. Government remains by far the largest borrower at Rs36.56tn, 3.3 times private-sector credit, but it repaid Rs1.85tn in two months: Rs1.49tn to scheduled banks and Rs364bn to SBP. Credit to public sector enterprises also fell by Rs101bn.
- The private sector did not use the space created. Business loans fell by Rs361bn, led by manufacturing (-Rs290bn); a similar seasonal decline occurred last year (-Rs246bn) but was larger this year. Personal loans were the only major category to grow (+Rs112bn, +7.2%).
- For every rupee lent to the private sector, about Rs3.5 goes to the public sector (government and PSEs), down slightly from Rs3.6 in June.
- Policy Note: Pakistan's credit allocation challenge is rooted in fiscal dominance, but lower government borrowing has not yet translated into business lending at a policy rate of 11.5%. Sustained fiscal consolidation should be combined with reforms to strengthen credit markets, including faster collateral recovery, better credit information and support for export-oriented and SME lending, to channel financing toward productive investment.

²³ SBP, Credit/Loans Classified by Borrowers (outstanding at end-month), June and August 2026, August provisional: <https://www.sbp.org.pk/assets/document/CreditLoans.pdf>. End-September data are not yet released.

Figure 12: Debt Profile of Pakistan



Source: SBP²⁴

- Total central government debt stood at Rs82.95tn at End-August 2026, Rs689bn lower than in June but 7.1% higher than a year earlier. Domestic debt was Rs58.76tn and external debt Rs24.20tn.
- The decline was almost entirely domestic: short-term floating debt fell by Rs366bn and long-term debt by Rs340bn, mirroring the government's repayment to the banking system. Domestic debt remains 71% of the total, and 18% of it must be rolled over within a year.
- September figures will include the \$3bn Eurobond, roughly Rs0.83tn, which will raise external debt.
- Policy Note: Prioritise fiscal consolidation through revenue mobilisation and expenditure rationalisation. Replacing domestic short-term debt with foreign-currency bonds lowers interest cost but adds exchange rate risk while the REER is high. The budget's primary surplus target for FY27 is in the right direction; execution will determine whether the debt trajectory bends.

²⁴ SBP, Central Government Debt, August 2026 (provisional): <https://www.sbp.org.pk/assets/document/cengovdebt.pdf>. External debt excludes IMF loans and foreign exchange liabilities.

Annexure

1. Physical Size: Government Departments and Employees

- KPMG-led consortium hired for House Building Finance Corporation Limited privatisation
- The Board of Privatisation Commission (BPC) approved the appointment of a financial adviser for the outsourcing of operations at Lahore and Karachi airports

2. Non-Development Spending

- Under this head, no development reported

3. Power Sector: Privatization of GENCOs and DISCOs

- Sell-off of three Discos: PC facing trust deficit in marketing due to policy inconsistencies
- DISCOs buyers eye dollar returns- Seek guarantees against contract reopening, NEPRA concerns among demands
- Discos' sell-off faces investor trust deficit; Bidders seek binding guarantees, risk cover amid fears of contract reopening
- PIA sell-off model floated for DISCOs- FESCO, GEPCO, IESCO privatisation moves ahead with special purpose vehicle
- The Privatisation Commission Board (PCB) asked the government to take over liabilities of ex-Wapda distribution companies (Discos) to facilitate their smooth and successful privatisation like Pakistan International Airlines
- Losses shifted to high-theft areas: Nepra sees no 'real improvement' in Discos' performance
- Prior to sell-off of 2 Punjab-based Discos: Body to explore bifurcation feasibility- The performance of both companies has remained comparatively weaker than other DISCOs in Punjab
- The Board of Privatisation Commission (BPC) decided to start the process for the sale of the fourth batch of two more power distribution companies (Discos) — Lahore and Multan
- Senate panel seeks halt to Discos sell-off
- Pursuing acquisition of FESCO: Nishat Group forms 7-company consortia
- 12 groups show interest in FESCO
- Mansha, Saigal, Tabbal families among 12 groups vying for stake in power utility
- Fesco attracts 12 bids as foreign, local investors join race
- Jahangir Tareen's sugar mill joins bid to buy FESCO
- 10 firms prequalify for Fesco bidding
- Chinese firm disqualified over Mandarin documents, KE withdraws, citing tariff delay
- Privatisation of FESCO: PC approves 10 out of 12 parties
- FESCO privatisation: 10 bidders pre-qualified, cleared for due diligence
- GEPCO sale draws two new bidders- Privatisation Commission receives EOIs from 11 investors for 51% to 100% stake
- GEPCO gets strong investor interest
- GEPCO sell-off: Nine parties pre-qualified by PC board
- Nine parties prequalify for GEPCO
- Govt decides to sell off Lesco, Mepco in their existing form
- The PC has extended the deadline for submitting EOIs for the acquisition of the Islamabad Electric Supply Company Ltd (IESCO) to Sept 21, from the earlier Sept 7
- IESCO sale draws interest from 10 domestic, foreign investors
- 10 parties in race to acquire lesco
- Bids for power firms being evaluated
- Govt sets bold DISCO sale deadline
- Govt tells IMF nine electricity distributors will be privatised by Dec 2027

4. The SOEs: Privatization of PIA, Pakistan Steel Mills, Etc.

- Govt decides to revive Pakistan Steel Mills, not to liquidate it
- Taxpayers to pay Rs30b for PIA debt
- Banks to earn Rs573b in interest over 10 years; govt extends sales tax exemptions to all airlines

5. Liberalization and Deregulation

- Battery storage made mandatory for power auctions. Facing serious duck-curve challenges, the government has decided to make Battery Energy Storage System (BESS) mandatory as part of the upcoming auction of 800MW of surplus power capacity at a wheeling charge to help stabilise electricity supply
- Amendments to CSM proposed: Nepra acts to enable bulk consumers to procure power
- Nepra clears key hurdle to competitive power market
 - Approves uniform charges for all Discos; participating bulk power consumers to pay Rs6.23-Rs19.62 per unit
 - Clears path for first 400MW open-access electricity auction
- Competitive power market gets nod
- Uniform grid charges okayed for bulk consumers, leading to 400 MW auction
- Govt begins to move out of power business
- Power Minister announced government will neither sell nor traditionally buy electricity from producers
- Govt invites bids for 'competitive' power capacity auction
 - Ismo opens bids for first half of planned 800MW rollout over five years
 - Policy to allow large consumers greater choice of electricity suppliers, ending state monopoly
 - 'Choice of supplier' will eventually be available to ordinary households too
- Punjab mulling participation in 400MW wheeling auction
- Nepra clears use-of-system charges for competitive power market
- Govt eyes petrol deregulation by June next year
 - High-speed diesel to be deregulated at a later stage
 - Ogra may be empowered to adjust diesel pricing without repeated cabinet approvals
 - Petroleum price stabilisation fund unlikely to be operationalised

Cost Build-up of New Provinces

Metric	Status Quo	Scenario A	Scenario B
Number of Provinces	4	6	30
New provinces	0	2	26
Provincial government cost, low	0	44.800	582.400
Provincial government cost, high	0	51.800	673.400
Senators under Article 59	96	142	694
Senate extra cost, high (all costs scale)	0	4.634	60.236
Senate extra cost, low (fixed share does not scale)	0	2.317	30.118
Commissioner offices closed	0	2	30
Savings from Closed Commissioner offices	0	0.220	3.300
Net extra cost, low	0	46.897	609.218
Net extra cost, high	0	56.214	730.336
Net extra cost as share of provincial pool, low	-	0.553%	7.179%
Net extra cost as share of provincial pool, high	-	0.662%	8.606%

Full Top-Layer Cost-Ratio Calculation

Proposed Province	Population 2023	NFC Allocation (Rs bn)	Low Administrative Structural Cost (Rs bn)	High Administrative Structural Cost (Rs bn)	Low Cost Ratio	High Cost Ratio
Bahawalpur	13,400,009	501.355	22.4	25.9	4.47%	5.17%
Dera Ghazi Khan	12,892,465	495.189	22.4	25.9	4.52%	5.23%
Faisalabad	16,228,526	546.823	22.4	25.9	4.10%	4.74%
Gujranwala	18,778,868	635.523	22.4	25.9	3.52%	4.08%
Lahore	22,772,710	720.946	22.4	25.9	3.11%	3.59%
Multan	14,085,102	500.421	22.4	25.9	4.48%	5.18%
Rawalpindi	11,406,496	376.912	22.4	25.9	5.94%	6.87%
Sahiwal	8,533,471	280.719	22.4	25.9	7.98%	9.23%
Sargodha	9,591,275	332.768	22.4	25.9	6.73%	7.78%
Hyderabad	11,659,246	455.924	22.4	25.9	4.91%	5.68%
Karachi	20,382,881	690.842	22.4	25.9	3.24%	3.75%
Larkana	7,093,706	264.284	22.4	25.9	8.48%	9.80%
Mirpur Khas	4,619,624	200.859	22.4	25.9	11.15%	12.89%
Shaheed Benazirabad	5,930,649	235.091	22.4	25.9	9.53%	11.02%
Sukkur	6,010,041	236.313	22.4	25.9	9.48%	10.96%
Bannu	3,092,078	98.397	22.4	25.9	22.76%	26.32%
Dera Ismail Khan	3,188,779	107.369	22.4	25.9	20.86%	24.12%
Hazara	6,188,736	175.655	22.4	25.9	12.75%	14.74%
Kohat	3,752,436	117.263	22.4	25.9	19.10%	22.09%
Malakand	9,959,399	304.022	22.4	25.9	7.37%	8.52%
Mardan	4,639,498	138.397	22.4	25.9	16.19%	18.71%
Peshawar	10,035,171	299.552	22.4	25.9	7.48%	8.65%
Kalat	2,721,018	145.071	22.4	25.9	15.44%	17.85%
Loralai	870,000	45.627	22.4	25.9	49.09%	56.76%
Makran	1,875,872	92.991	22.4	25.9	24.09%	27.85%
Nasirabad	2,044,021	104.419	22.4	25.9	21.45%	24.80%
Quetta	4,259,163	211.058	22.4	25.9	10.61%	12.27%
Rakhshan	1,040,001	60.556	22.4	25.9	36.99%	42.77%
Sibi	1,156,748	61.819	22.4	25.9	36.23%	41.90%
Zhob	927,579	49.836	22.4	25.9	44.95%	51.97%

Cost ratio = annual recurring top-layer cost / illustrative NFC allocation. Low cost = Rs 22.4bn; high cost = Rs 25.9bn. Ratios exclude straight transfers, grants, and own-source revenues.

Sensitivity Analysis

Parent	Proposed Province	Baseline Allocation	S1 Allocation	Changes in S1	S2 Allocation	Changes in S2	S3 Allocation	Changes in S3	Alt. Poverty Allocation	Change in Poverty
Punjab	Bahawalpur	501.363	503.499	2.136	478.324	-23.039	481.969	-19.394	501.363	0.000
Punjab	Dera Ghazi Khan	495.197	497.927	2.730	473.031	-22.166	476.348	-18.848	495.197	0.000
Punjab	Faisalabad	546.832	546.243	-0.590	518.930	-27.902	527.769	-19.064	546.832	0.000
Punjab	Gujranwala	635.534	634.997	-0.537	603.247	-32.287	613.226	-22.308	635.534	0.000
Punjab	Lahore	720.958	717.689	-3.269	901.341	180.383	822.015	101.057	720.958	0.000
Punjab	Multan	500.430	501.277	0.847	476.213	-24.217	506.420	5.990	500.430	0.000
Punjab	Rawalpindi	376.918	376.113	-0.806	357.307	-19.611	374.295	-2.623	376.918	0.000
Punjab	Sahiwal	280.723	280.054	-0.669	266.052	-14.672	268.905	-11.819	280.723	0.000
Punjab	Sargodha	332.774	332.930	0.156	316.283	-16.490	319.782	-12.992	332.774	0.000
Sindh	Hyderabad	455.931	456.974	1.043	434.125	-21.806	435.758	-20.174	455.931	0.000
Sindh	Karachi	690.853	687.086	-3.767	756.899	66.046	752.181	61.328	690.853	0.000
Sindh	Larkana	264.288	264.232	-0.056	251.021	-13.267	251.891	-12.397	264.288	0.000
Sindh	Mirpur Khas	200.863	202.340	1.477	192.223	-8.640	192.870	-7.993	200.863	0.000
Sindh	Shaheed Benazirabad	235.095	235.793	0.698	224.003	-11.092	224.833	-10.262	235.095	0.000
Sindh	Sukkur	236.317	236.923	0.606	225.077	-11.240	225.814	-10.503	236.317	0.000
KP	Bannu	98.398	98.635	0.237	93.704	-4.695	98.538	0.140	98.398	0.000
KP	Dera Ismail Khan	107.370	107.925	0.555	102.529	-4.842	107.514	0.144	107.370	0.000
KP	Hazara	175.658	175.012	-0.646	166.261	-9.397	174.092	-1.566	175.658	0.000
KP	Kohat	117.265	117.439	0.174	111.567	-5.697	117.434	0.170	117.265	0.000
KP	Malakand	304.027	304.110	0.084	288.905	-15.122	304.476	0.450	304.027	0.000
KP	Mardan	138.399	138.268	-0.131	131.354	-7.044	138.608	0.210	138.399	0.000
KP	Peshawar	299.557	299.284	-0.273	346.354	46.797	300.010	0.453	299.557	0.000
Balochistan	Kalat	145.073	145.292	0.218	138.027	-7.046	145.073	0.000	144.872	-0.201
Balochistan	Loralai	45.627	45.657	0.030	43.375	-2.253	45.627	0.000	45.572	-0.056
Balochistan	Makran	92.993	92.774	-0.219	88.135	-4.858	92.993	0.000	94.012	1.019
Balochistan	Nasirabad	104.421	104.345	-0.076	99.128	-5.293	104.421	0.000	104.235	-0.186
Balochistan	Quetta	211.061	210.560	-0.501	238.601	27.540	211.061	0.000	210.867	-0.194
Balochistan	Rakhshan	60.557	60.909	0.352	57.864	-2.693	60.557	0.000	60.511	-0.046
Balochistan	Sibi	61.820	61.921	0.101	58.825	-2.995	61.820	0.000	61.744	-0.076
Balochistan	Zhob	49.837	49.932	0.095	47.435	-2.402	49.837	0.000	49.578	-0.259

Baseline = revenue share by population; S1 = revenue criterion dropped and remaining weights rescaled; S2 = parent provincial capital receives the full revenue component; S3 = mapped FY2024-25 FBR domestic collections; Alternative poverty = province-average imputation for missing Balochistan poverty observations.

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