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New Administrative Units in Pakistan: An Economic and Financial Context of the Debate

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Disclaimer: *This insight is confined to the economic and financial dimensions of creating new provinces or administrative units in Pakistan. Political, constitutional, ethnic, security and administrative dimensions of this debate are real and consequential, but they are not addressed here and require a separate, dedicated discussion before any such proposal moves toward materialization.*

Overview

The current debate on new provinces or administrative units is, at its core, a debate about governance, and not the creation of new boundaries as such, which should remain the principal objective guiding this discussion. Smaller, more responsive units and a stronger local government tier are legitimate ways of pursuing that objective and this Insight brief does not seek to foreclose that conversation. What it argues is that any move in this direction needs a foundation: a resolved resource-transfer formula, a realistic and containable cost of new governance structures, a workable tax administration and divisible-pool arrangement, clarity on borrowing privileges and contingent liabilities and sequencing that matches Pakistan's present economic capacity. None of these is insurmountable. Each can be worked through, provided the process runs via research-based discourse on proper institutional platforms and given adequate time to build gradual consensus among the federating units rather than proceeding haphazardly. The five considerations below set out both the challenge and a constructive path through it.

1. The Resource-Transfer Formula Question

TAny new administrative unit raises the question of how resources would be divided between it and the units it is carved out from. This requires a transparent formula, under Pakistan's existing fiscal federalism framework, which has relied heavily on population share with some weight given to poverty, revenue generation and inverse population density. Applying it to new units presupposes reliable, disaggregated data on population counts, poverty headcounts and revenue potential specific to each proposed unit, which does not currently exist. That gap should be named plainly rather than evaded. It is not, however, a permanent obstacle; building it is an immediate, inevitable task that can begin now while drawing on existing local government census and social-registry data as a starting base. Even though completing it credibly will take time, making that investment early, through a properly mandated research process is what will allow

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any future formula to rest on evidence rather than negotiation from a standing start.

2. The Cost of New Governance Structures and How to Contain It

Creating a new administrative unit is not a paper exercise; it can mean recruiting an entirely new bureaucracy, building fresh residential and office infrastructure and standing up parallel line ministries, each of which carries substantial one-off and recurring costs that must be weighed against Pakistan's current fiscal constraints. It does not, however, have to mean replicating the country's current, often oversized and costly governance apparatus. The proposals already circulating on this question are explicit that any new arrangement should not simply mirror the existing model; a leaner structure built around a strengthened local government tier, shared administrative services and smaller, more focused provincial units could substantially reduce both the upfront and recurring costs of transition. Making that design choice explicit and testing it through proper costing exercises rather than assuming the most expensive version by default is itself part of making this reform possible.

3. Tax Administration and the Divisible Pool

A new province or administrative unit would, under the existing constitutional design, require its own provincial tax revenue authority, divisional-level revenue units and a defined place within the divisible pool arrangement governed by the National Finance Commission (NFC). Building a functioning tax administration is resource-intensive, requiring trained personnel, IT systems and enforcement capacity, and, as with governance costs generally, this need not mean duplicating an entire bureaucracy from scratch. A phased approach that extends and upgrades existing local government and provincial revenue infrastructure could shorten this transition considerably. However, what cannot be shortcut is the divisible pool formula itself, since it currently allocates shared federal tax revenue among the existing four provinces and would need to be reopened and renegotiated to accommodate new claimants. This touches every existing province's interest and calls for renewed political consensus, precisely the kind of decision that should be built gradually rather than rushed and that belongs to a proper platform such as the NFC and/or the Council of Common Interests (CCI).

4. Borrowing Privileges and Contingent Liability

TUnder the existing structure, provinces may negotiate directly with international financial institutions for loans, while the contingent liability for repayment ultimately rests with the federal government. It should not simply be assumed that this same privilege would automatically extend to new administrative units in its current form. Other options are worth exploring that could preserve access to development financing without multiplying independent risk-takers. The objective of raising this issue is to make clear that expanding the number of sub-national entities able to contract external debt, with the center bearing ultimate risk, should go hand in hand with a deliberate strengthening of the federation's capacity to monitor, coordinate and absorb that risk through a dedicated federal-provincial debt-coordination mechanism. Adopting a well-thought-out structurally designed approach would not lead towards fiscal disorder.

5. Timing: Sequencing Reform with Economic Stability

Internationally and historically, discussions of this magnitude, i.e., restructuring a country's internal administrative map tend to move from debate to implementation only once a country has secured a sustained period of stable economic growth, given the planning, sequencing and financing such change requires. Pakistan's present economic condition means this is not yet the moment to legislate or implement new administrative units; layering the uncertainty and cost of a new arrangement onto an economy already under strain risks compounding rather than resolving its fiscal difficulties. This is a case for sequencing, not for closing the conversation. The debate itself should be encouraged but on proper institutional platforms, through research-based discourse rather than haphazard political point-scoring, and with enough time allowed for the groundwork in the sections above to be completed. Going ahead in this way, stability and reform preparation can proceed in parallel, so that when conditions do allow, the groundwork for a gradual, consensus-based transition is already in place.

Conclusion and the Way Forward

The current debate did not emerge in a vacuum. Pakistan's provincial map has a long administrative history, the same boundaries pre-date the 1973 Constitution, which formalized rather than invented the existing arrangement, and population has grown manifold since. That demographic reality is what proponents point to when arguing that new provinces or administrative units are needed to keep governance manageable at scale, and it is a legitimate starting point for discussion. Some of the current discourse, admittedly, is driven by political point-scoring rather than rigorous policy preparation and that pattern does the underlying question a disservice. The way to correct it is not to shut the debate down but to move it onto a proper footing, i.e., research-based discourse conducted through recognized platforms, Parliament, the Council of Common Interests, the National Finance Commission and provincial assemblies, rather than ad hoc political announcements.

Adequate time for the technical and constitutional groundwork to be completed, along with a gradual, negotiated consensus among the federating units, is essential rather than a unilaterally imposed outcome. Read together, the five considerations above are best understood not as reasons to abandon this conversation, but as the practical checklist for any credible, governance-first proposal, whether built around stronger local government, smaller provinces or another administrative model. As stated at the outset, this remains a partial, economic and financial reading of the issue whereas the political, constitutional and administrative dimensions warrant equally rigorous, separate examination before any such proposal is pursued further.