Unleashing the Roadmap to Economic Development of Pakistan

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Executive Summary

Pakistan's growth and cohesion have long been constrained by a centralization–decentralization pendulum that began with the 1955 "One Unit" experiment, was seared by the 1971 rupture, and persists today in the mismatch between national ambitions and local delivery. A country born as two wings separated by >1,000 miles now faces a population that surged **614%—from 33.5 million (1951) to 239.1 million (2023)** and a projected 255.2 million (2025)—while real GDP growth hovers around 2.68% (FY2024–25) against a 2.55% population growth rate. The demographic weight is lopsided: Punjab 127.6 million (over half the nation), Sindh 55.6 million, KP 40.8 million, and Balochistan 14.8 million, which spans ~44% of Pakistan's land but only ~6% of its people. Despite a restored multi-tier map of 37 divisions and 169 districts, governance and economic decision-making remain concentrated far from communities where services and jobs are needed most.

The 7th NFC Award (2009)—constitutionally due for revision every 5 years—still governs in 2025. Provinces receive **57.5% of the divisible pool** (federation 42.5%), but distribution among provinces is anchored to an old formula: **Punjab 51.74%**, **Sindh 24.55%** (revised 25.21%, an additional 0.66% compensates provinces for the abolition of octroi/zilla taxes), **KP 14.62%** plus an extra 1% of the total pool for security operations, and **Balochistan 9.09%**. In **FY2024–25**, provinces together received about **PKR 6,997 billion** (FBR revenues PKR 11,900 billion), with per-person transfers roughly PKR 26,984 (Punjab), PKR 31,489 (Sindh), PKR 27,953 (KP), and PKR 46,216 (Balochistan); transfers are projected at PKR 8,205 billion in FY2025–26. Yet funds rarely trickle down predictably due to lack of local government structure. Additionally, the Provincial Finance Commissions are dormant or outdated—**Sindh's last PFC award** (2007–08) is 17 years old. Combined with rapid official rotations, delayed local elections, and thin local revenue powers, districts struggle to deliver basics in health and education, develop industry clusters, or retain workers.

Pakistan's governance framework is at a defining crossroads. The analysis in this report highlights that the country's economic development and social progress are fundamentally tied to the effectiveness of its multi-tiered governance structure. The incomplete devolution of powers and fiscal resources—particularly from the provincial to the local level—has created serious obstacles to inclusive growth, deepened regional disparities, and weakened the delivery of essential public services. The prolonged stagnation of the NFC Award and persistent challenges in empowering local governments reflect deeper political economic constraints that undermine Pakistan's capacity to respond to its rapidly expanding population and evolving socio-economic realities.

A **comprehensive reform agenda** is therefore indispensable. Genuine decentralization, fiscal rebalancing, promotion of local economic activity, and the empowerment of elected local governments must be treated not as mere administrative reforms but as a fundamental necessity. Drawing lessons from global best practices in adaptive governance structures, robust fiscal federalism, and strong systems of local accountability, Pakistan can chart a path toward a more balanced, efficient, and responsive state apparatus. Such reforms are essential to unlock the vast economic potential at the district level, promote social equity, and ensure the nation's long-term stability and prosperity. Should provinces remain unwilling or unprepared to devolve meaningful authority to local governments, the only viable alternative would be a constitutional amendment transforming **Divisions** into administrative provinces.

As the apex representative body of Pakistan's business community, the **FPCCI** has a pivotal role to play in championing these governance reforms, advocating for structural changes that can build a more resilient, equitable, and prosperous Pakistan.

1. Introduction: Context and Purpose

1.1. Pakistan's journey since independence in 1947 has been shaped by persistent questions of **governance, administrative efficiency,** and **equitable development** across its diverse regions. The country was born as a unique federation of two wings - East and West Pakistan - separated by more than a thousand miles of Indian territory. This dual structure, while politically necessary at the time of partition, created deep administrative challenges. The tragic separation of East Pakistan in 1971 was not only a loss of a territory but also a **stark reminder of the consequences of poor governance, inadequate representation and imbalance of power structure within the federation**. It redefined Pakistan's national identity and left the state with a crucial lesson: **governance systems that fail to deliver inclusion, equity, and efficiency cannot sustain long-term economic growth**.

1.2. The early decades of Pakistan's governance were dominated by experiments such as the **"One Unit" scheme of 1955**, which sought to merge all provinces and princely states of West Pakistan into a single administrative entity. The stated objective was to create parity with the more populous East Pakistan and simplify governance. In practice, however, the policy deepened grievances by **concentrating power in a few hands, suppressing provincial identities, and neglecting local aspirations**. Its abolition in 1970 led to the restoration of the four provinces—Punjab, Sindh, Balochistan, and North-West Frontier Province (now Khyber Pakhtunkhwa). This pendulum swing between **centralization** and **decentralization** continues to influence Pakistan's governance narrative.

1.3. Today, more than five decades later, Pakistan continues to struggle with the same fundamental dilemma: **how to balance central authority with regional autonomy while ensuring efficient governance and localization of economic activities**. As of 2025, the country's demographic, geographic, and economic realities have evolved significantly, underscoring the critical need for **localized economic initiatives** to achieve inclusive and sustainable development of the country. Presently, Punjab alone is home to over a half of Pakistan's population, with **centralized decision-making**, creating structural imbalance in **infrastructure development, economic activities, provision of health and education,** etc. In contrast, Balochistan, which accounts for nearly 44% of the country's landmass - larger than 172 countries - remains **grossly underdeveloped**, with limited infrastructure, weak service delivery, and chronic governance gaps. Whereas, Sindh and Khyber Pakhtunkhwa face their own challenges of **uneven development, urban-rural divides, and resource allocation disputes**.

1.4. A common thread across all four provinces, however, is the **widespread lack of trade and commerce at local levels**. This absence of localized economic opportunities has unfortunately pushed residents in these areas toward **non-economic activities**, hindering the potential for broad-based prosperity. The path forward requires a **renewed focus on empowering regions** and fostering **grassroots economic engagements** to build a more balanced and equitable nation.

1.5. Global experience offers useful lessons. Countries like **India**, the **United States**, **Canada,** etc have consistently strengthened governance by **empowering local institutions and devolving financial and administrative authority**. Smaller, locally responsive administrative units are more effective in addressing citizen's needs, managing local resources, and ensuring balanced development. Pakistan, in contrast, has been **slow to move toward meaningful devolution**. Through the 18th **amendment**, the **administrative and financial powers were devolved from federation to provinces**, however, **further devolution is the missing piece in the puzzle**. The provincial governments often perceive local empowerment as a **threat to centralized decision-making** rather than an opportunity to

strengthen district economies. History shows, however, that the greater danger lies not in devolving powers, but in **allowing alienation, poor governance, and inequitable resource distribution to persist unchecked.**

1.6. The **Federation of Pakistan Chambers of Commerce and Industry (FPCCI)** recognizes that **effective governance is the bedrock of sustainable economic development, social cohesion, and national stability**. Investors—both domestic and international—require a **stable and predictable governance framework** to operate with confidence. Mismanagement, poor service delivery, corruption, and lack of accountability erode investor trust and make Pakistan a **less competitive destination in the global economy**. For this reason, the **devolution of administrative and financial powers to local governments is not only a political necessity but also an economic imperative**. Empowered local systems can **attract investment, develop industries tailored to regional strengths, and ensure that economic opportunities are more evenly distributed** across the federation.

1.7. The importance of devolution becomes even clearer when viewed through the lens of **resource management**. Pakistan's governance challenges manifest in multiple ways: **escalating poverty, inefficient use of resources, and misaligned infrastructure development**. In large provinces, marginalized regions often remain neglected because **political and fiscal priorities are concentrated in dominant urban centers**. Southern Punjab, interior Sindh, and parts of Balochistan and Khyber Pakhtunkhwa illustrate how peripheral areas struggle to access infrastructure and opportunities despite being **resource-rich**. **Stronger and better-resourced local governments** would be better positioned to plan development according to local needs, manage resources efficiently, and ensure accountability at the grassroots level.

1.8. Moreover, **genuine devolution can ease ethnic and regional tensions** by offering underrepresented communities a fairer share in governance. Rather than weakening the federation, such measures **strengthen national unity by making every citizen feel that they have a stake in Pakistan's success**. This aligns with the principle of **inclusive federalism**, where **diversity is treated as an asset, not a liability.**

1.9. This report by the **Policy Advisory Board of FPCCI** sets out to highlight the **untapped economic potential of Pakistan's regions**, which remains underutilized due to **over-centralized decision-making, inefficient management, and weak local empowerment**. It underscores how abundant resources—**minerals, agriculture, fisheries, energy, and trade routes**—fail to translate into prosperity because governance structures are too distant from ground realities.

1.10. **In conclusion**, Pakistan's current governance model is increasingly misaligned with its **population size, regional disparities, and economic aspirations**. **Meaningful devolution of administrative and financial powers to the local level** offers a practical pathway to address inefficiencies, strengthen national cohesion, and unlock the country's true potential. The objective is not fragmentation, but **integration—bringing the government closer to the people, ensuring fair distribution of resources, and enabling Pakistan to move confidently toward a more stable, prosperous, and united future.**

2. Evolution of Pakistan's Administrative and Demographic Landscape

2.1. Population Growth in Pakistan (1951 - 2023):

Pakistan’s population has grown from **33.5 million in 1951 to 239.1 million in 2023 further projected to 255.2 million by 2025**, marking an overall increase of **614%** in just over seven decades. Pakistan's population growth rate from 2017 to 2023 has remained at **2.55%** against real GDP growth rate of **2.68%** for FY2024-25. The provincial growth trends are as follows:

a) **Punjab**: Punjab remains Pakistan’s most populous province, growing from **20.6 million in 1951 to 127.6 million in 2023**—an increase of **about 520%**. It accounts for more than half of the country’s population.

b) **Sindh**: Sindh’s population rose from **6.0 million in 1951 to 55.6 million in 2023**, reflecting an **828% increase**, the second-highest growth rate among all provinces. Much of this growth is concentrated in Karachi, Pakistan’s financial hub, driven by both natural growth and migration from other provinces.

c) **Khyber Pakhtunkhwa (KPK)**: KP’s population grew from **5.8 million in 1951 to 40.8 million in 2023,** representing a 605% increase. High fertility rates and the influx of Afghan refugees have contributed significantly to this growth.

d) **Balochistan**: Balochistan experienced the highest percentage increase, with its population rising from **1.1 million in 1951 to 14.8 million in 2023**—a staggering **1,253% growth**. Despite covering nearly 44% of Pakistan’s landmass, it still accounts for only about 6% of the total population, indicating low population density.

Table 1: Pakistan’s Population Comparison (1951 - 2023, 72 years)

Province	1951	2017	2021	2023	Growth (1951-2023)
Punjab	**20.6**	**109.9**	**119.3**	**127.6**	**520%**
Sindh	**6.0**	**47.8**	**52.5**	**55.6**	**828%**
Khyber Pakhtunkhwa	**5.8**	**35.4**	**39.0**	**40.8**	**605%**
Baluchistan	**1.1**	**12.3**	**13.9**	**14.8**	**1,253%**
Total	**33.5**	**205.4**	**224.7**	**239.1**	**614%**

2.2. Administrative Structures of Pakistan

a) Administrative Devolution

1) Pakistan's administrative structure has undergone significant transformations, albeit with periods of consolidation and reversal. Prior to July 1, 1970, West Pakistan operated as a single "One Unit" province, amalgamating three provinces (North-West Frontier, West Punjab, Sindh), one Chief Commissioner's province (Baluchistan), various princely states, and federally administered areas. On July 1, 1970, the "One Unit" was formally abolished, leading to the restoration of the four distinct provinces: Balochistan, North-West Frontier

(now Khyber Pakhtunkhwa), Punjab, and Sindh.

2) The 1973 Constitution of Pakistan empowered elected representatives and established a parliamentary democracy system with the President, Prime Minister as the head of government, along with a cabinet of ministers. It created a two-house parliament consisting of the Senate and the National Assembly. The Senate provides equal representation for all its federating units, ensuring that each of the four provinces has the same number of elected representatives. The objective of the Senate is to foster national unity and harmony by ensuring that all federating units have a voice, thereby alleviating fears of domination by larger provinces. This equal provincial representation serves as a counterbalance to the National Assembly, where the number of seats for each province is determined by its population. According to the Constitution, constitutional amendments require a two-thirds majority in both houses of parliament. The 1973 Constitution defines the relationship between the federal government and the provinces, as well as the distribution of resources, legislative powers and administrative relations.

3) Under the 1973 Constitution, the State carries the responsibility of:

   a) Fundamental rights: (Freedom of business, food, water, housing, education and healthcare)
   b) Security: (law and order)
   c) Welfare
   d) Justice
   e) Freedom of speech and expression
   f) Right to access the information

4) The **18th Amendment to the Constitution of Pakistan**, passed in **April 2010**, marked one of the most significant milestones in the country's democratic and federal history. It restored a true spirit of federalism by devolving substantial administrative and financial powers from the federal government to the provinces. Under this amendment, several key portfolios—such as health, education, agriculture, and social welfare—were transferred to provincial control, alongside enhanced authority over natural resources and taxation through the **National Finance Commission (NFC) Award**. The amendment also abolished the **Concurrent Legislative List**, strengthened parliamentary sovereignty and mandated greater provincial autonomy in policymaking and service delivery. While the 18th Amendment has been praised for empowering provinces and promoting participatory governance, its implementation challenges remain—particularly the lack of further devolution to local governments and capacity gaps at the provincial level.

5) **The Merger of the Federally Administered Tribal Areas (FATA) and the Provincially Administered Tribal Areas (PATA)** into Khyber Pakhtunkhwa (KP), formalized through the 25th Constitutional Amendment in 2018, was a landmark step in Pakistan's governance and constitutional evolution. This historic reform abolished the Frontier Crimes Regulation (FCR), granted the people of FATA and PATA representation in the KP Assembly, and extended the jurisdiction of Pakistan's courts and law enforcement agencies to these areas. The objective was to bring the region into the national mainstream, ensuring access to **basic human rights, development funds, and improved governance**.

6) As of 2025, Pakistan's administrative structure comprises four provinces (Balochistan, Khyber Pakhtunkhwa, Punjab, Sindh), the Islamabad Capital Territory, Azad Kashmir and Gilgit-Baltistan. Provinces and regions are subdivided into administrative "divisions," which are further subdivided into "districts and union councils.". It is noteworthy that the divisional level of administration was abolished in 2001 but was subsequently reinstated following the 18th Constitutional Amendment in 2010, indicating a persistent need for intermediate administrative tiers.

Table 2: Divisions and Districts of Pakistan as of 2025

Province	Divisions	Districts
Punjab	**10**	**41**
Sindh	**6**	**30**
Khyber Pakhtunkhwa	**7**	**38**
Baluchistan	**8**	**36**
Azad Kashmir	**3**	**10**
Gilgit Baltistan	**3**	**14**
Total	**37**	**169**

7) In contrast, India's administrative reorganization presents a different trajectory. In 1947, British India consisted of 17 provinces and over 500 princely states. India subsequently undertook significant reorganization, primarily along linguistic lines, with the States Reorganisation Act of 1956 creating 14 states and 6 union territories. As of July 2025, India has evolved to comprise 28 states and 8 Union Territories. The formula adopted for this transformation considered linguistic and cultural similarities, the maintenance of India's unity and integrity, and administrative, financial, and economic considerations. Population was also a key factor in determining legislative representation.

8) Despite Pakistan's rapid population growth and recurring calls for further decentralization into smaller administrative units, the country has largely maintained its four major provincial units since their re-establishment in 1970. This enduring structure, unlike India's more flexible and adaptive approach, suggests a deep-seated resistance to further administrative fragmentation at the provincial level within Pakistan. This rigidity can exacerbate governance challenges stemming from demographic pressures. The fact that Pakistan has remained with four provinces since 1970, despite its population explosion, while India started with fewer and now has significantly more states and union territories driven by linguistic and administrative efficiency, highlights Pakistan's relatively static administrative map. This, when coupled with massive population growth, implies increasing pressure on existing administrative units. The resistance to creating new provinces in Pakistan, despite arguments for better management of smaller populations, is a crucial underlying issue.

9) The contrast with India's approach to state reorganization, which proactively prioritized administrative efficiency and cultural identity alongside demographic considerations, underscores a potential missed opportunity for Pakistan. India's experience demonstrates that administrative restructuring can be a tool to address regional disparities, improve

administrative efficiency, and accommodate diverse identities. The fact that Pakistan has not pursued similar extensive restructuring, and if it should consider devolving provinces into smaller units, suggests that there might be political or structural impediments preventing it from adopting a more adaptive strategy. This analytical comparison highlights different governance philosophies and their potential implications for national development.

b) Financial Devolution - National Finance Commission (NFC) Award

1) The **National Finance Commission (NFC)** Award stands as the fundamental pillar of fiscal federalism in Pakistan, dictating the distribution of financial resources and shaping the fiscal capacity of both federal and provincial governments. It is a constitutionally established body under **Article 160 of Pakistan's Constitution**, mandated to recommend an appropriate mechanism for revenue sharing between the federal government and the four provincial governments. The President of Pakistan is constitutionally required to constitute the NFC at intervals not exceeding **five consecutive years.** The NFC comprises the Federal Finance Minister, the Finance Ministers of each of the four provincial governments, and other persons appointed by the President in consultation with the provincial governors.

2) The NFC Award has two primary components: vertical and horizontal distribution. Vertical distribution determines the share of federally collected revenues between the federal government and the provinces. **The 7th NFC Award**, agreed upon in 2009, marked a significant shift by substantially increasing the provincial share in the divisible pool from **47.5% to 56% in FY2010-11**, and f**urther to 57.5% from FY2011 onwards**. Consequently, the federal government retains 42.5% of the divisible pool.

3) Horizontal distribution dictates how the provincial share of the divisible pool is distributed among the four provinces. The **7th NFC Award** was pivotal in moving from a population-only criterion to a multiple-indicator model, aiming for a more nuanced and equitable distribution. The formula assigns weights to various indicators:

    1) **Population - 82.00%,**
    2) **Poverty / Backwardness - 10.30%,**
    3) **Revenue Collection / Generation - 5.00%, and**
    4) **Inverse Population Density - 2.70%**

    Based on this formula, the horizontal distribution of funds is as follows:

    1) **Punjab 51.74%,**
    2) **Sindh 24.55%,**
    3) **Khyber Pakhtunkhwa 14.62%,** Additionally, Khyber Pakhtunkhwa is entitled to an extra 1% of the total divisible pool for security operations.
    4) **Balochistan 9.09%**

Table 2: NFC Resource Distribution

Vertical Distribution (%)	Distribution within Provinces (%)			
Federation: Provinces distribution	Punjab	Sindh	KPK	Baluchistan
57.5: 42.5	51.74	24.55	14.62	9.09
*Revised figures	51.74	25.21	15.62	9.09

**After incorporating 1% net proceeds of the divisible pool to meet war on terror expense, and as grants-in-aid of the revenues, an amount equivalent to 0.66% of the provincial share in the net proceeds of divisible pool as a compensation for the losses on account of abolition of octroi and zilla tax*

4) A significant challenge in Pakistan's fiscal federalism is the prolonged extension of the 7th NFC Award. Despite the constitutional requirement for a new award every five years, it has been in effect for nearly 15 years by 2025, far beyond its intended tenure of 5 years. This represents a clear violation of constitutional timelines and is attributed to a persistent lack of consensus among the provinces and the Federal government on a new formula. This continuous extension of the **7th NFC Award** for 15 years reveals deep-seated political economy issues and persistent inter-provincial disagreements. This stagnation in fiscal policy adaptation means that the existing formula, once considered progressive, is now outdated and may no longer adequately reflect current socio-economic realities, such as **climate vulnerability**, **debt servicing**, **building of water reservoirs**, **war against terror or urban inequality**, nor does it sufficiently incentivize optimal provincial revenue generation efforts. The constitutional mandate for the NFC is a review every five years. The fact that the 2009 award is still in place in 2025 points to a significant governance failure in achieving consensus. This directly impacts the **"fair distribution of resources"** and **"inclusive and sustainable economic growth".** The lack of an updated formula means it might not address contemporary challenges, potentially exacerbating existing disparities and hindering effective resource allocation for development.

5) The 18th Amendment's stipulation that a province's share in any future NFC Award cannot be less than its share in the previous award provides a crucial layer of fiscal certainty for provinces. However, this non-regression clause also introduces significant rigidity into the fiscal framework. While it protects provincial interests, it simultaneously makes it more challenging to adjust the formula to evolving national priorities or to create stronger incentives for provinces to enhance their own-source revenue collection efforts, potentially fostering fiscal complacency. This constitutional safeguard, while beneficial for provincial autonomy, creates a "ratchet effect" where the provincial share can only increase or stay the same. This, combined with the federal government's fiscal constraints, means there is less flexibility to rebalance the vertical distribution or to strongly incentivize provinces to improve their own tax base. This is a subtle but critical long-term implication for Pakistan's fiscal health and the sustainability of its federal structure.

6) **Inefficient Revenue Collection by Federal Board of Revenue (FBR):** Inadequate revenue collection at national level in comparison to the national GDP is also a significant point of concern which poses vulnerabilities to Pakistan's economic development. Historically,

FBR's revenues collection has been low as against the national GDP due to various governance, economic and political reasons. Pakistan's tax-to-GDP is also one of the lowest in the region due to which our national debt is also exacerbated. Therefore, the amount allocated to the provinces is already insufficient. In **FY2025-26** the **PKR 8,205 billion** are projected to be distributed among the provinces. Thus, the provinces lack the sufficient financial muscle and capacity to fund comprehensive development plans. In addition, the centralization at the provincial level prevents a "trickle-down" effect of development at the local level, where initiatives in health, education, infrastructure, and commerce are most critically needed. Therefore, to foster inclusive and sustainable growth across the country, it is imperative to implement robust reforms that enhance overall revenue collection at the federal level.

Table 3: NFC Resource Distribution in Provinces (Rs. Billion)

Province	FY2024-25	FY2024-25 (Per Person Transfer)
Punjab	**3,436**	**Rs. 26,984**
Sindh	**1,752**	**Rs. 31,489**
Khyber Pakhtunkhwa	**1,136**	**Rs. 27,953**
Baluchistan	**673**	**Rs. 46,216**
Total Provincial Share	**6,997**	
FBR Revenues	**11,900**	

Table 4: Government Revenue as % GDP Comparison

Province	Government Revenue as % of GDP
Pakistan	**11.1**
India	**11.7**
Bangladesh	**7.30**
China	**20.40**
Vietnam	**16.80**
Srilanka	**10.0**

Source: OECD) and Pakistan Finance Ministry

3. Provincial Responsibilities and Gaps in Devolution to Local Governments

3.1. Constitutional Obligations and Compliance of Provinces

1) Following the 18th Constitutional Amendment, provinces were explicitly tasked with providing essential public services, including health, education, local justice, law enforcement, and infrastructure development at the district level. **Article 140-A(1)** of the Constitution mandates that each province shall establish a local government system and devolve political, administrative, and financial responsibility and authority to the elected representatives of the local governments. This provision clearly outlines the constitutional obligation for provinces to transfer funds to divisions and districts for inclusive and sustainable economic growth.

2) However, the compliance of provinces with these constitutional and NFC requirements for transferring funds to divisions and districts has been inequitable and largely inadequate. There appears to be a general lack of interest in fulfilling constitutional obligations concerning local governments, due to the fear of sharing political capital with local elected people. Provinces have consistently delayed local government elections, despite the timelines provided in the **Federal Elections Act, 2017,** using various excuses such as issues of delimitations and officialization of census data. Provincial legislation, with the exception of Khyber Pakhtunkhwa, has often been described as "half-hearted attempts" to meet minimum compliance with court orders and constitutional requirements, lacking the true spirit of devolution.

3) **Provincial Finance Commissions (PFCs)**, under the **Constitution's Clause 140-A(1)** provinces are obliged to form PFCs to ensure fair distribution of financial resources among local bodies within a province, which have also faced significant challenges. In Sindh, for example, the first PFC Award was issued in 2002-03, second 2004-05, third 2005-06, and fourth (last) PFC Award was issued in 2007-08 meaning funds are still being distributed based on an outdated **17 years old** award mounting financial pressures on local bodies and making Pakistan one of the lowest spending country in human development in the world. This situation highlights a reluctance by provinces to devolve powers to the local governments, which are at the foundation of a democratic system.

3.2. Consequences of Incomplete Devolution on District-Level Development

1) The lack of genuine devolution from provincial governments has resulted in divisions and districts still lagging significantly in crucial sectors such as health, education, local justice systems, infrastructure development, prosperity, and law and order at the grassroots level. This is a direct consequence of resources remaining concentrated at the provincial level, severely limiting district-level initiatives and hindering the "trickle-down effects" envisioned by the NFC and PFC awards.

2) In the health sector, for instance, districts suffer from a lack of capable and trained healthcare staff, inadequate laboratory facilities, and insufficient transport for emergency referrals. While devolution was intended to bring financial authority to districts and prioritize health, district administrators often focused on visible infrastructure projects rather than social sectors like health and education. This has led to an underperforming healthcare delivery system, characterized by low health spending, weak governance, and an imbalance of human resources. Despite some improvements in health allocations post-devolution, the lack of

effective implementation and continued issues with resource disbursement at the district level have meant that the performance of primary healthcare facilities has not shown significant improvement.

3) Similarly, in education, districts lag in literacy indicators. The absence of decision-making at the district level contributes to lower literacy rates, obstructing human resource development. The lack of resources and autonomy at the local level means that the potential for improving educational outcomes, particularly for girls, remains underutilized.

4) The concentration of resources and decision making at the provincial level also limits targeted planning and investment at local clusters, leading to underutilized potential and ineffective implementation of development plans. This directly impacts industrialization and cluster development at the local level, preventing districts from leveraging their **unique resources and strengths for economic growth**.

5) The consequences of poor district-level development extend beyond service delivery. It contributes to forced intra-provincial and inter-provincial migration, as people move from underdeveloped areas to metropolitan cities in search of better opportunities and services. This, in turn, overburdens the infrastructure and services of major metropolitan centers like Karachi, Lahore, Quetta, and Peshawar. Ultimately, this cycle exacerbates regional inequalities and contributes to higher unemployment rates across the country. The inability of local governments to enforce laws and regulations and the deterioration of law and order at the grassroots level are also cited as critical failures stemming from incomplete devolution, compelling provincial officials to reassert bureaucratic control.

4. Governance and Institutional Challenges at the Local Level

4.1. Rapid Rotation of Officials and its Impact

1) Pakistan's administrative structure at the divisional and district levels relies heavily on appointed government officials. Commissioners oversee divisions, while the district administration is led by Deputy Commissioners. A significant institutional challenge is the rapid rotation and frequent transfers of these government officials. This high staff circulation in key government posts leads to a situation of "instability within stability".

2) The rapid turnover means that Commissioners and Deputy Commissioners cannot devote sufficient attention, continuity, or strategic focus to the long-term growth and progress of their respective divisions and districts. Such frequent transfers negatively impact on-the-job learning, accountability for results, and incentives to acquire specialized skills relevant to a particular area. Public employees often understand that non-compliance with political demands can lead to a transfer, which can have serious consequences for their quality of life and reputation. This creates a system where officials may prioritize short-term compliance over long-term developmental objectives or accountability for sustained performance.

3) Moreover, these transfers are often arbitrary or politically motivated, rather than based on administrative necessity. This politicization adversely affects administrative morale and professional competence, leading to institutional and governance breakdowns. The lack of continuity in leadership at the local level hinders effective planning, consistent policy implementation, and the development of long-term strategies essential for addressing complex local issues. This also contributes to a lack of ownership over local development initiatives, as officials may not be in a position long enough to see projects through or be held accountable for their outcomes.

4.2. Need for Elected Local Government Representatives and Accountability

1) A critical reform imperative for Pakistan's governance is the establishment of genuinely empowered elected local government representatives. The current system, characterized by bureaucratic control and rapid rotation of appointed officials, fundamentally lacks the accountability and ownership necessary for effective local development initiatives.

2) People in Pakistan overwhelmingly support a democratically elected local government system, believing it to be the most effective method for improving their quality of life through service delivery. The theoretical argument for devolving responsibilities to lower tiers of government is that the closer proximity of local policymakers to citizens increases the flow of information, enabling the public to better monitor and hold government officials accountable. Elected local policymakers, responding to this greater citizen vigilance, are incentivized to focus on improving service delivery to get re-elected. This brings governance closer to the people, offering more opportunities for interaction between decision-makers and citizens.

3) However, the current local government systems in Pakistan are constrained by limited functions defined by law and suffer from a dearth of avenues for citizen engagement. They often find themselves under the sway of political governments and bureaucratic control, relying heavily on financial subsidies from provincial governments. This lack of fiscal autonomy means local governments cannot effectively manage local affairs or make decisions in the best interest of

their communities, **as they cannot levy local taxes in lieu of services or decide on their spending.**

4) Furthermore, the advancements made in local governance, such as increased representation for women, minorities, peasants, and workers, have gradually been eroded in the post-devolution phase as provinces assumed legislative authority over local governments. This diminishes the democratic character and inclusivity of local councils. Constitutional protection for local government continuity and timely elections is crucial for the sustainability and effectiveness of these systems, reducing delays and ensuring effective local governance. Without empowered, elected local governments with genuine administrative and fiscal autonomy, Pakistan's grassroots development remains hampered, and the crucial link between citizens and the state at the local level remains elusive.

5. Comparative Analysis with other Countries

5.1. Pakistan's position on Human Development Index, Growth Rate, Literacy Rate in comparison to other countries.

1) **Low Human Development Outcomes:** Pakistan's Human Development Index (HDI) rank of 168 is one of the lowest on the list, a direct reflection of poor public service delivery at the grassroots. Due to ineffective local government structure, the funds for essential services like healthcare and education are not reaching the local level efficiently, leading to poor outcomes. This is starkly visible in the table's 58% literacy rate, which is the lowest among all listed countries, including those with similar or slightly higher population growth rates. A centralized governance model cannot effectively address local educational needs, and the data confirms this failure.

2) **Lagging Governance Quality:** Pakistan's low Chandler Good Governance Index (CGGI) rank of 109 further corroborates this point. The CGGI measures a government's ability to deliver public goods and services. A low score indicates weak institutions and ineffective policies—exactly what the report described as a consequence of stalled devolution. The report argued that without functional PFCs and local government, financial power remains concentrated at the provincial level, hindering the ability of local governments to manage their resources and address local priorities. The low CGGI rank is a tangible measure of this administrative inefficiency and institutional weakness.

3) **Strained System and Regional Disparity:** The country's population growth rate of 1.5% puts immense pressure on a system that is not designed for efficient service delivery to a large and dispersed population. The lack of proper devolution means that decisions affecting local communities are made far away in provincial capitals, leading to regional disparities and a "trickle-down" effect that never fully materializes. Countries with lower population growth and higher governance scores (like Norway and Switzerland) have the institutional capacity to manage their resources effectively, which is a key reason for their high HDI.

Table 5: Comparative Analysis

S. No.	Countries	HDI Rank	Chandler Good Governance Index	Population Growth Rate	Literacy Rate (15 & above)
1	Iceland	1	21	2.8	96
2	Norway	2	3	0.9	100
3	Switzerland	3	6	1.6	99
4	Sri Lanka	78	99	-0.6	92
5	Bangladesh	129	95	1.2	76
6	India	134	71	0.9	77
7	Kenya	143	94	2.0	83
8	Ghana	143	86	1.9	80
9	Angola	148	118	3.0	72
10	Uganda	157	98	2.8	81
11	Rwanda	159	59	2.1	79

12	**Togo**	**161**	**-**	**2.3**	**67**
13	**Pakistan**	**168**	**109**	**1.5**	**58**
14	**USA**	**17**	**23**	**1.0**	**79**
15	**Vietnam**	**93**	**48**	**0.6**	**96**

5.2. International Success Stories and Lessons for Pakistan

Examining the experiences of other nations that have successfully implemented decentralization and administrative reorganization offers valuable lessons for Pakistan. These examples illustrate how adaptive governance structures can respond to population growth, foster local development, and enhance public service delivery. Following are the best Approaches to Devolution and Administrative Unit Reorganization.

a) **United States and United Kingdom:** Both the US and UK have models of devolution that emphasize local representation and responsiveness, adapting administrative units to population growth and local needs. In the US, the federal government gradually transferred federally run programs to territorial governments, allowing northerners to take on more responsibility for their own affairs. In the UK, devolved governments were created for Scotland, Wales, Northern Ireland, and London, allowing for greater democracy and more effective local representation, with devolved bodies able to respond to the concerns of their electorates. While devolution can lead to policy divergences and debates about equal citizenship, it is seen as a success in delivering local representation and reflecting diverse policy preferences.

b) **India:** India's experience with state reorganization is particularly relevant given its shared colonial history and similar demographic pressures. India undertook an extensive process of administrative reorganization, primarily along linguistic lines, driven by population growth and diverse identities. Starting with 17 provinces and over 500 princely states in 1947, India evolved to 28 states and 8 Union Territories by 2025. The formula adopted for this transformation considered linguistic and cultural similarities, the maintenance of India's unity and integrity, and administrative, financial, and economic considerations. This approach aimed to promote administrative efficiency, cultural unity, and a stronger sense of belonging among citizens. The continuous process of creating new states, such as Jharkhand, Uttarakhand, Chhattisgarh, and Telangana, demonstrates India's flexibility in accommodating regional, linguistic, and developmental aspirations, often leading to better administration and addressing regional disparities. The emphasis on devolving funds to local bodies, tied to performance and planning, also highlights a commitment to grassroots development.

c) **Turkey:** Turkey's decentralization efforts since the early 1980s provide another valuable case study. Historically, Turkish local governments suffered from strong centralist control and limited economic resources. However, reforms in the 1980s significantly improved the financial resources and administrative competencies of municipalities, allowing them to play a more substantial role in local economic development and infrastructure. Municipal incomes doubled and tripled as a share of GNP, and their role in local investments was reinforced. This enabled municipalities to undertake large-scale public investments, privatize municipal services, and attract private investment, transforming cities into attractive economic centers. While some studies suggest a weak negative economic effect of decentralization through the number of municipalities per capita, fiscal independence and the ability of local governments to raise their own revenue have been positively associated with development outcomes and foreign investment attraction.

d) **Lessons for Pakistan:** Common threads emerge from these international experiences that Pakistan can draw upon. First, adaptive administrative structures that can evolve in response to demographic changes and diverse identities are crucial for effective governance. India's linguistic reorganization demonstrates a willingness to redraw administrative boundaries to improve efficiency and address regional demands. Second, granting genuine fiscal independence to local tiers, allowing them to raise and manage their own revenues, and develop economic policies is vital for fostering local economic development and improving service delivery. Turkey's experience shows how increased financial autonomy at the municipal level can unlock local potential. Third, empowering elected local representatives with real decision-making authority and accountability mechanisms is fundamental to ensuring that governance is responsive to citizen needs and that development initiatives are locally owned and effectively implemented. These lessons collectively point towards the need for Pakistan to overcome its resistance to deeper administrative and fiscal decentralization to unlock its full economic potential.

6. Recommendations: Strategies for Unleashing Pakistan's Economic Potential

Based on the foregoing analysis of Pakistan's governance challenges and the successful experiences of other nations, the following strategies are recommended by the Federation of Pakistan Chambers of Commerce and Industry (FPCCI) for a more robust, equitable, and efficient governance framework, thereby unleashing Pakistan's economic potential.

6.1. Reforming Fiscal Federalism and Local Government Finance

1. **Timely and Adaptive NFC Awards:** The prolonged extension of the 7th NFC Award for nearly 15 years has rendered it outdated and unable to address contemporary socio-economic realities such as climate vulnerability and urban inequality. It is imperative to pursue regular and timely finalization of new NFC Awards, adhering strictly to the constitutional five-year cycle. A revised formula should be adopted that reduces the over-reliance on population as the primary criterion for horizontal distribution. Instead, it should incorporate a more balanced set of indicators, including poverty reduction, human development progress, provincial revenue generation efforts, and effective resource management. This would incentivize provinces to improve their own tax base and performance, moving beyond fiscal complacency.

2. **Empowering Provincial Finance Commissions (PFCs):** Provincial Finance Commissions must be strengthened with robust constitutional protection and provided with clear, formula-based criteria for horizontal distribution of funds to districts, moving away from ad-hoc transfers. The current situation, where PFC awards are often delayed or non-existent (e.g., Sindh's last PFC Award in 2007-08), starves local bodies of their due share of funds. A transparent, equitable, and predictable inter-governmental revenue-sharing system at the provincial-to-local level is essential to enable local governments to improve performance and service delivery.

3. **Enhancing Local Own-Source Revenue:** Local governments (districts) are currently constrained by limited functions and heavy reliance on provincial funds. They must be empowered to generate revenues matching to shares received from the Province. This is essential for unlocking local economic potential, thereby fostering greater public welfare and generating resources for local development projects.

6.2. Strengthening Administrative Devolution and Local Governance

1. **Constitutional Protection for Local Governments:** The continuity and sustainability of local government systems are frequently threatened by political transitions and a lack of constitutional protection. Robust constitutional protection is needed to ensure the uninterrupted functioning of local governments and the timely conduct of local elections, thereby reducing political interference and ensuring effective grassroots governance.

2. **Targeted Planning and Cluster Development:** To unlock underutilized potential and foster industrialization, there must be a renewed focus on district-level targeted planning and investment, particularly in local clusters. This requires empowering local administrations with the capacity and resources for strategic planning, moving away from centralized provincial planning that often overlooks specific local needs and economic opportunities.

6.3. Rationalizing Federal and Provincial Responsibilities

1. **Review and Rationalize Federal PSDP and BISP:** The federal government continues to spend on areas devolved to provinces, leading to duplication and contributing to the fiscal deficit. A systematic review of federal expenditures on devolved subjects, such as the Federal Public Sector Development Program (PSDP) and the Benazir Income Support Program (BISP), is necessary to avoid duplication and align spending with constitutional mandates. Gradually transferring these responsibilities and associated financing to provinces, contingent on provincial capacity and demonstrated revenue generation efforts, could reduce the fiscal burden on the federal government and improve accountability.

2. **Creating Fiscal Space for National Priorities:** By rationalizing and transferring expenditures on devolved subjects, the federal government can create much-needed fiscal space for its core national priorities. These include critical areas such as debt payments, defense, the justice system, large-scale infrastructure like water reservoirs, and combating terrorism, which are currently strained due to fiscal constraints. A re-prioritization of federal spending, supported by robust provincial and district revenue generation, is essential for national stability and long-term development.

6.4. Learning from International Experiences

1. **Adaptive Administrative Structures:** Pakistan can draw lessons from India's flexible approach to state reorganization, which has successfully adapted administrative units to demographic growth and diverse cultural realities. This involves a willingness to consider the creation of smaller, more manageable administrative units, potentially transforming divisions into "mini-provinces" within existing federating provinces, to improve governance efficiency and responsiveness to local needs.

2. **Fiscal Decentralization Models:** Examining models from Turkey and other nations where increased local fiscal autonomy has demonstrably led to improved service delivery and local economic development can provide a blueprint for Pakistan. This includes empowering local governments to raise their own revenues and manage their budgets, fostering a sense of ownership and accountability for local development.

3. **Accountability Mechanisms:** Adopting best practices for strengthening local accountability and transparency, including robust performance audits and citizen engagement mechanisms, is crucial. Ensuring that elected local representatives are genuinely accountable to their constituents, rather than to higher political or bureaucratic authorities, is fundamental for democratic governance and effective public service delivery.

7. Conclusion

7.1. Pakistan's governance framework stands at a critical juncture. The analysis presented in this report underscores that the nation's economic development and social progress are intrinsically linked to the efficacy of its multi-tier governance system. The incomplete devolution of powers and resources, particularly from the provincial to the local level, has created significant impediments to inclusive growth, exacerbating regional inequalities and straining public service delivery. The prolonged stagnation of the NFC Award and the challenges in empowering local governments are symptomatic of deeper political economic issues that hinder Pakistan's ability to adapt to its rapidly growing population and evolving socio-economic landscape.

7.2. A comprehensive reform agenda, focusing on genuine decentralization, fiscal rebalancing, generation of local economy and the empowerment of elected local governments, is not merely an administrative adjustment but a fundamental imperative. By learning from international experiences in adaptive administrative structures, robust fiscal decentralization, and strong local accountability, Pakistan can forge a path towards a more balanced, efficient, and responsive governance model. These reforms are essential to unlock the **immense economic potential at the district level**, foster social equity, and ensure the long-term stability and prosperity of the nation. **However, if the provinces are unwilling or unprepared to devolve authority to districts, the only alternative remaining is to transform 'Divisions' into administrative provinces via a constitutional amendment.** The FPCCI, as a key advocate for economic growth, has a vital role to play in championing these critical governance reforms to build a more resilient and prosperous Pakistan.