

SEZ Phase-out Implementation Plan

IMF Response

06 October 2025



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Overview of SEZ regime in Pakistan

Legal Background

- The SEZ 2012 Act led the foundation of SEZ regime in Pakistan (amended in 2015).

Objectives

- Industrialization, attraction of foreign & domestic Investment, export promotion and employment creation.

Incentives Offered

- Corporate Income Tax (CIT): 10-year income tax holiday
- One-time custom duty exemption on import of capital goods, plant, and machinery

Governance Model

- **Federal Level – Board of Investment (BOI):** Central policymaker, regulator, and overall custodian of the SEZ framework
- **Provincial SEZ Authorities:** Oversee implementation, approvals, and facilitation at the provincial level
- **Zone-level Developers:**
 - Public SEZs
 - Private SEZs
 - Public-Private Partnerships (PPP)
 - Sole Enterprise Zones

Note: 54 SEZs are approved whose obligations were signed or agreed upon prior to the EFF agreement.



IMF called for the rollback of profit-based incentives for SEZs by 2035, advising no new SEZ should be established and leveraging cost / performance - based incentives during the transition.

- 1 In 2024, SEZ contribute 0.5% of national GDP, 6.4% of national exports, 2% reduction in BoP deficit, and 0.4% of national employment.
- 2 From 2022 to 2024, SEZs have benefitted from fiscal direct incentives resulting in foregone revenues that represent 0.15% of total revenues from the government of Pakistan for 3 years.
- 3 Pakistan's SEZ incentives are limited, yet the country has a more challenging investment climate. Foregone fiscal revenues from SEZ incentives remain minimal.
- 4 SEZs suffer from weak infrastructure, utilities, and service delivery have delayed land utilization and slowed the full ramp-up of SEZs, limiting their near-term industrial impact.
- 5 Countries like China or Malaysia phased out SEZ incentives only after zones reached robust industrial contributions and distortions became significant—a stage Pakistan has not yet reached
- 6 Rolling back SEZ incentives now would weaken industrialization, hurt investor confidence, and shrink future export potential; a phased, carefully managed reform is necessary.



Compliance status of Structural Benchmarks and Other Actions: We have set our original plan based on the EFF agreement

SB/Actions	Status	Timeline
Assessment of the fiscal costs and effectiveness of each SEZ, to be published in FY25	Complied	Already Done
Refrain from providing new fiscal incentives to any new or existing SEZs	Committed	Already Done
No renewal of existing incentives	Committed	Already Done
Refrain from creating new SEZs	Committed	Already Done
SB: By end June 2025, prepare a plan based on the assessment conducted to fully phase out all current SEZ incentives by 2035, subject to pre-existing contractual obligations		
i) CD Exemption (One time incentive)	Committed	Cut-off date 2035
i) CIT	Committed (Table **)	
<ul style="list-style-type: none"> a) Legal amendments in related laws to phase out existing fiscal incentives by the cut-off b) Legal amendments in related laws required to run the Pilot Project on cost-based incentives. c) Legal amendments in related laws for nation wide roll out of cost - based incentives / phase out of profit-based incentives 	Committed	<ul style="list-style-type: none"> a) June 2026* b) June 2027** c) March 2030***
During transition period between 2024 and 2035, strive to replace pre-existing profit-based incentives with cost-based incentives subject to compliance with existing legal commitments. For those cases where contractual provisions allow for early termination or renegotiation of existing SEZ incentives, authorities will phase out such incentives insofar as allowed by these legal provisions. Relatedly, no new fiscal or other incentives offered to SEZs should be provided to any firms, sectors or investments	Plan and investigate calibration of cost-based incentives for existing zone developers and enterprises based on their margins in a joint exercise with the Finance division	June 2027 ²



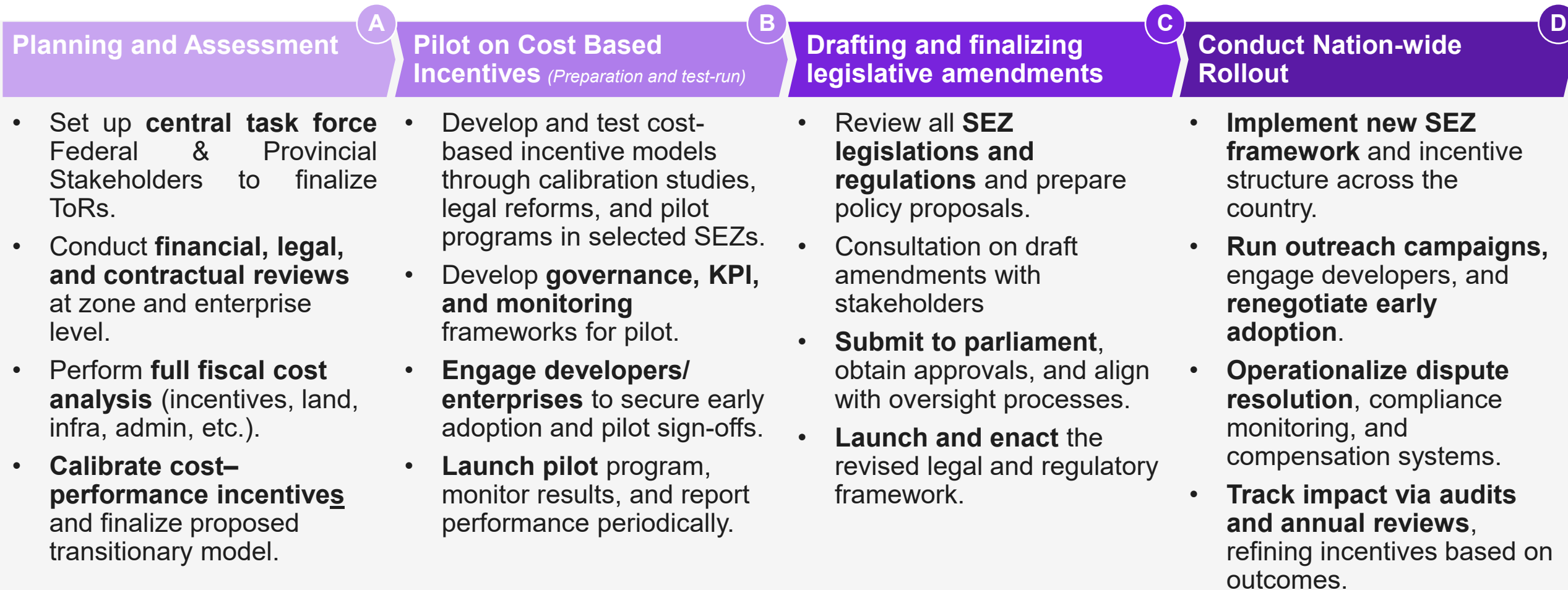
Table: Corporate Income Tax Exemption**

*In transition period, tapering off will be replaced by cost-based incentives, based upon the study



Incentive duration	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
10 years	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red
9 years	White	Red	Red	Red	Red	Red	Red	Red	Red	Red
8 years	White	White	Red	Red	Red	Red	Red	Red	Red	Red
7 years	White	White	White	Red	Red	Red	Red	Red	Red	Red
6 years	White	White	White	White	Red	Red	Red	Red	Red	Red
5 years	White	White	White	White	White	Red	Red	Red	Red	Red
4 years	White	White	White	White	White	White	Red	Red	Red	Red
3 years	White	White	White	White	White	White	White	Red	Red	Red
2 years	White	White	White	White	White	White	White	White	Red	Red
Till June 2035	White	White	White	White	White	White	White	White	White	Red

However, as IMF pushes for more aggressive reform, a roadmap for SEZ aligned with their requests has been set by BOI



Detailed Implementation Plan (1/4)

Code	Workstream	Start Date	End Date	Duration (Months)	Responsibility
A	A. Planning and Assessment	Oct-25	Mar-27	18	
A1	Set up administrative task force to finalize TORs; resources and work allocation	Oct-25	Nov-25	2	SIFC/MoF/BOI
A2	Hiring of consultancy services	Oct-25	Jan-26	3	BOI
A3 A3a	Stakeholders mapping and development of an outreach plan; Initiate first round of engagements with relevant departments and authorities.	Feb-26 Mar-26	June-26	*Throughout the phase-out plan	BOI
A4 A4 a	Conduct comprehensive collection of financial data and materials at the zone, developer and zone enterprise level Develop Concept Note on the rationale, objectives, scope, legislative amendments , KPIs of the reforms to shift from profit to cost-based incentives	Feb-26 June-26	Aug-26 July 26	6	BOI
A5	Conduct legal review and mapping of all contractual obligations with developers and zone enterprises data from developers	Feb-26	Aug-26	6	BOI
A6	Complete fiscal costs analysis of all zones covering direct and indirect costs (i.e. incentives, land, infra, administration, others)	Oct-26	Dec-26	2	BOI
A7	Conduct calibration analysis at the enterprise/developers for cost/performance-based incentives	Oct-26	Jan-27	4	BOI/MoF

Detailed Implementation Plan (2/4)

Code	Workstream	Start Date	End Date	Duration (Months)	Responsibility
B	B. Pilot on Cost Based Incentives: (Preparation and test-run)	Mar-27	Feb-29	24	
B1	Stakeholders Consultations - Hold structured dialogues with stakeholders to capture inputs.	Jan-27	May-27	5	BOI
B2	Develop and test cost-based incentive models *Fund proposed Dec 26	*Feb-27	Feb-27	1	BOI
B3	Define pilot governance, monitoring and KPI frameworks to enhance administration and oversight	Mar-27	May-27	3	BOI
B4	Engage with zone developers and enterprises to gauge interest in early adoption of new incentives and identify pilot candidates	Mar-27	May-27	3	BOI
B5	Launch of Pilot Project	Jun-27	May-29	24	BOI
B6	Monitor and report pilot performance periodically	Sep-27	Jun-29	22	BOI

Detailed Implementation Plan (3/4)



Code	Workstream	Start Date	End Date	Duration (Months)	Responsibility
C	C. Drafting and finalizing legislative amendments (Three Rounds of Amendments)	Oct-25	Jul-29	46	
C1*	Incorporating amendments as per Finance Bill 2025-26 in SEZ Act., 2012	Oct-25	Jun-26	9	BOI
C2**	Prepare legal grounds for pilot run of cost-based incentives	Jul-26	Sep-26	3	BOI
C3	Draft proposed legislative and regulatory amendments	Oct-26	Dec-26	3	BOI
C4	Consultation with members of parliament and key stakeholders on proposed amendments	Jul-26	Mar-27	9	BOI
C5	Complete regulatory reviews and formal approvals from government bodies	Dec-26	Jan-27	2	BOI
C6	Submit amendments to Parliament and undergo approval processes	Feb-27	Apr-27	2	BOI
C7	Launch and enact revised legal framework	May-27	Jun-27	2	BOI

Detailed Implementation Plan (4/4)



Code	Workstream	Start Date	End Date	Duration (Months)	Responsibility
D	D. Conduct Nation-wide Rollout	Jul-29	Jun-30	12	
D1	Evaluation of Lessons learned from the pilot on cost-based incentives	Jul-29	Aug-29	2	BOI
D2	Engage with zone developers and enterprises for early adoption of new incentives	Aug-29	Sep-29	2	BOI
D3	Review audit and inspection operating model and monitoring framework for SEZ firms based on the revised act, strengthening compliance and enforcement capacity of SEZ Secretariat	Oct-29	Dec-29	3	BOI/Provincial SEZAs
C8***	Drafting & Consultations for Finalization of Legislative amendments for roll-out of nation-wide cost-based incentives to SEZs	Oct-29	Mar-30	6	BOI
D4	Operationalize of formal dispute resolution (complaint redressal) mechanisms	Apr-30	Jun-30	3	BOI
D5	Process resolution of claims through financial losses compensation mechanism.	Apr-30	Jun-30	3	BOI
D6	Conduct periodic reporting of economic impact, investment levels, and employment outcomes	Jul-30	Jun-31	12	BOI
D7	Annual reviews	Jul-31	Jun-35	49	BOI/Provincial SEZAs

Thank you

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