

SEZ COMPETITIVENESS & TRANSITION PLAN

CONCEPT NOTE



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Executive Summary

Pakistan is making earnest and unprecedented efforts to accelerate its economic transformation and bring its economic policy and business climate in line with the benchmarks for peer economies. While accelerated business reforms, such as regulatory and critical corporate code reforms are underway, both foreign and domestic investors and the private sector have sincerely highlighted the need for business incentives and infrastructure that can help Pakistan become a more competitive destination for investment. Special Economic Zones respond directly to this demand by bridging gaps and creating accelerated economic growth pathways that would otherwise not be possible. In Pakistan's experience, some zones have performed better than others, and therefore this reform effort also offers the opportunity to enhance SEZ competitiveness, align investor and private sector incentives with international benchmarks, and meet EFF commitments.

This Concept Note provides the strategic roadmap for Pakistan's SEZ reform, defining the scope, objectives, and expected outcomes of the legislative amendments required to the SEZ Act, and serves as the June 2026 Structural Benchmark deliverable. This note forms one component of the broader SEZ Incentives Phase Out Plan. The fiscal, legal, and institutional analyses required to design the new incentive regime will be delivered through subsequent deliverables. This analytical work underpinning the transition will be organised across three complementary workstreams.

- First, an Institutional Analysis will map the governance architecture governing SEZs at federal and provincial level, identify coordination failures, and design the institutional arrangements needed to administer the reformed regime.
- Second, a Legal and Contractual Analysis will review the legislative framework (including recent amendments to the SEZ Act), and zone developer agreements, and propose a legislative sequencing plan based on the legal analysis.
- Third, a Fiscal Cost Analysis will quantify direct and indirect fiscal costs across a stratified sample of zones, model transition scenarios, and provide the calibration data required to design a cost-based incentive framework.

The outputs of these three workstreams will feed directly into a Calibration Analysis that designs cost based incentives.

The calibrated incentive model will then be tested in a pilot at one selected SEZ, with a proposed pilot design which can enable BOI to launch a pilot around June 2027 alongside the enactment of the revised SEZ Act. The pilot will provide evidence to refine the cost based incentive framework before broader implementation. National rollout could then follow pilot evaluation, supporting the orderly transition towards the phase-out of all current fiscal incentives by June 2035, subject to pre-existing legal and contractual obligations, with cost-based incentives becoming available following successful pilot implementation.

PART I

Mandate, Context, and Scope

Section 1: The SEZ Transition Reform Mandate

1.1 Pakistan's SEZ Competitiveness

Special Economic Zones (SEZs) form a key part of Pakistan’s economic transformation strategy, and the Government of Pakistan (GOP) is actively working on enhancing its SEZ regime and associated frameworks in the pursuit of GDP growth, investment, exports, and contribution to macroeconomic stability. The Government of Pakistan and the Board of Investment also recognise the need for a review of the existing SEZ incentives regime in order to enhance the competitiveness of SEZs and align SEZ with EFF and wider IMF programme requirements. SEZs form a key part of the national strategy to attract FDI and mobilize domestic investment - there is a strong national push to encourage the emergence of high-performing SEZs, and investors are beginning to appreciate improvements in Pakistan’s business climate and available infrastructure. BOI also recognizes the central importance of regional perspectives from key private and public sector stakeholders in shaping SEZ competitiveness (**Annex D**). The private sector has been clear in expressing the need for additional incentives and support in a highly competitive regional environment where other countries are offering both fiscal breaks and other incentives. A transition gameplan which increases the private sector’s confidence, stimulates investment into successful zones and enhances the contribution factor to Pakistan’s overall economic growth and fiscal collections will be the optimal reform pathway.

Pakistan's SEZ reform obligations are included in a series of commitments entered under the 37-month Extended Fund Facility agreed in September 2024. These commitments constitute structural benchmarks against which programme compliance is assessed at each review.

The First Structural Benchmark, issued in September 2024, required the BOI publish an assessment of the fiscal costs and effectiveness of each SEZ in FY25, and to prepare a plan for the full phase-out of all current profit based SEZ fiscal incentives subject to pre-existing legal commitments by end-June 2025. Advisors AT Kearney were commissioned, and conducted a comprehensive foundational feasibility study. This was completed and published in June 2025. The Jun-25 benchmark was concluded to have been “met with delay.” Additionally, IMF determined in August 2025 that additional analysis was required in specific areas in support of the phase out plan.

Following this, in February 2026, the BOI has engaged in a technical assistance agreement with the FCDO REMIT Programme, to develop this concept note to outline the additional analysis required so that the foundations for SEZ transition can be made on sound planning.

The April 2025 MEFP — agreed following the First Review of the EFF — provides additional context around the Structural Benchmark agreed between BOI and IMF:

Commitment	Benchmark Language	Timeline / Status
Fiscal assessment published	Assessment of fiscal costs and effectiveness of each SEZ to be published in FY25	Done. AT Kearney study, June 2025. Further IMF comments

		to be addressed via additional fiscal analysis (this CN)
Phase-out plan	Comprehensive plan to fully phase out current SEZ fiscal incentives by 2035	The government has already committed to end-Jun 2035 as the phase out of existing incentives subject to pre-existing contractual obligations. End-June 2025 SB was implemented with delay; IMF comments August 2025
No new SEZs or incentives	Refrain from new SEZs, new incentives, or renewal of existing ones	Immediate/ongoing — committed.
Concept Note (this document)	Concept note defining scope, objectives, and expected outcomes of legislative amendments to the SEZ Act	End-June 2026 SB — in progress.
SEZ Act amendment	Amend SEZ Act to phase out existing fiscal incentives; begin shift to cost-based; remove BOA/BOI/SEZA incentive-granting powers	End-June 2027 SB. A significant portion of the associated amendment has been made.

1.2 Legislative Progress to Date

Following the IMF's August 2025 comments, the Government of Pakistan has taken a major legislative step that advances the reform agenda. The Special Economic Zones (Amendment) Act, 2026 ("2026 Amendment"), passed by the Parliament, introduces several structural changes to the SEZ Act, 2012.

Most significantly, the 2026 Amendment amends Section 37 of the SEZ Act, 2012, which governs enterprise-level income tax exemptions, by providing that the income tax exemption for zone enterprises would expire on June 30, 2035, or at the end of the enterprise's ten-year holiday period, whichever is earlier. This has converted the previously open-ended entitlement into a time-bound one with a legislatively fixed outer boundary.

The 2026 Amendment also establishes a Federal SEZ Authority for the Islamabad Capital Territory and federally established SEZs; restructures the composition and powers of SEZ Authorities at the provincial level; introduces provisions giving concession agreements for public-private partnership and private sector SEZs primacy over development agreements; and creates a Special Economic Zone Appellate Tribunal with exclusive jurisdiction over SEZ Act disputes and a mandatory three-month decision timeline.

1.3 August 2025 IMF Comments

The IMF's August 19, 2025 staff commentary stated that the June 2025 structural benchmark had not been fully met and seven specific gaps. These have also been addressed in this Concept Note and brought within the fold of the ensuing exercise.

No feasible legislative amendment sequence provided	Section 10 proposes a preliminary legislative sequencing plan, subject to finalisation between BOI/SIFC and parliamentary/legislative procedural discussions.
No zone triage by compliance and objective achievement	Section 5 (Legal Workstream) provides for developing a zone classification framework
Prior plan did not analyse developer/enterprise obligations — only government obligations	Section 5 addresses this: analysis of obligations is incorporated into the workstream
Grandfathering plus new cost deductions implies new fiscal costs — not calibrated	The fiscal analysis methodology will allow for calibration of future fiscal exposure
Indirect fiscal costs (PSDP, land, admin) not included	Section 6 (Fiscal Workstream) makes indirect cost estimation an objective alongside direct cost assessment
Reforms in the wider business environment	Section 10.3 outlines the SEZ incentive transition in relation to the broader investment climate reforms underway and outlines areas of synergy.
Market distortion analysis absent or anecdotal	Section 6 includes market distortion analysis (factor market differentials, profit shifting, mainland-SEZ dynamics) as a required sub-analysis

1.4 Scope of This Concept Note

This Concept Note is a strategic document establishing the analytical mandate and reform pathway. It is intended to fill the gaps between the August 2025 comments and steps required to fulfill the June 2026 Structural Benchmark requirement to “define the scope, objectives, and expected outcomes of legislative amendments to the SEZ Act”. This is set out in the table below:

Benchmark element	How this Concept Note addresses it
Preparation and publication of a concept note	This document is the concept note, prepared by the Board of Investment with REMIT technical support and intended for publication as the end-June 2026 deliverable (milestone D2).
Defining the scope of legislative amendments to the SEZ Act	Section 1.4 defines the coverage (the national SEZ regime) and the 2025 to 2035 horizon. Section 5 (Legal and Contractual Analysis) maps the SEZ Act 2012, the related legislation and the developer agreements, and Section 1.2 records the changes already made by the SEZ (Amendment) Act 2026.
Defining the objectives of legislative amendments	Section 3.1 sets six overall reform objectives.

Defining the expected outcomes of legislative amendments	Section 10.2 lays out the expected outcomes of the June 2027 Round 2 package.
Rationale for reform	Set out in Section 2, Section 3.3 (reframing the reform from rewarding location to rewarding productive investment, and Section 8.1 (from entitlement to earned, performance-based support).
Proposed KPIs	Section 8 sets out a two-level KPI framework. Section 8.2 proposes zone-level KPI domains covering infrastructure and utilities, land utilisation, developer performance, regulatory service delivery and aggregated enterprise outcomes.
The shift from profit to cost based incentives	Section 7 defines the shift (7.1) and provides an illustrative long-list of potential candidate cost-based instruments in Table 7.2.
Identify future amendments	Section 1.2 identifies the amendments already enacted by the SEZ. Sections 5.5 and 5.6 outline the illustrative legislative sequencing plan (deliverable D4, 31 August 2026), and Sections 10.1 and 10.2 set out the milestone map and the June 2027 Round 2 amendment package.
Design of temporary and targeted cost based incentives to mitigate negative economic externalities	Temporary (i.e. time bound in their nature): Section 7.2 requires every instrument to be time-bound, carry published eligibility criteria, periodic review and sunset provisions. Targeted: Table 7.2 maps each instrument to its potential best-suited sectors and Section 7.4 shows a possible approach for how transition can be done by zone category.
Proposed KPIs for firms benefiting from incentives, to assess performance and whether objectives are advanced	Section 8.3 sets enterprise-level KPIs for cost-based deduction eligibility. Objective 3 in Section 3.1 links incentive support to KPI achievement.

The Concept Note covers the national SEZ regime (presently 54 SEZs, 44 notified). Its specific observation approach for institutional, legal, and fiscal analysis, respectively, is laid out in the sections to follow. It is not the complete phase-out plan, which cannot be finalised until the fiscal, legal, and calibration analyses described in Parts III and IV have been completed between July and October 2026 and full consultations with regional SEZ Authorities and the private sector have taken place. The time horizon is 2025 to 2035, aligned with the timeline for phase out of current SEZ incentives. The Concept Note covers “Phase A,” (Planning and Assessment — currently active) as defined by the AT Kearney analysis, and provides the framing for Phases B through D, which are described in detail in Section 10.

Section 2: Pakistan’s Current SEZ Regime

2.1 The Zone Universe

Pakistan’s SEZ ecosystem comprises 54 SEZs in total, including 44 notified SEZs and 10 SEZs currently under planning and processing stages. Of the 44 notified zones, 23 are operational/functional, 20 are under development or work-in-progress, while 1 SEZ remains non-operational. The ecosystem includes 31 Multi-Industry SEZs and 13 Sole Enterprise SEZs across public, private, and Public-Private Partnership (PPP) development models.



The operational landscape includes a mix of large-scale industrial zones, CPEC-linked SEZs, export-oriented manufacturing hubs, and sector-specific SESEZs focused on textiles, automobiles, chemicals, logistics, tyres, cement, steel, and technology sectors. Major operational

SEZs include M-3 Industrial City, Allama Iqbal Industrial City, Quaid-e-Azam Business Park, Rashakai SEZ, Bin Qasim Industrial Park, and Bostan SEZ.

Punjab hosts the largest concentration of SEZs, followed by Sindh, Khyber Pakhtunkhwa, and Balochistan. The SEZ universe covers approximately 18,295 acres of notified industrial land of operational SEZs, with around 1244 zone enterprises/allottees (BOI survey, Jun 2024) associated with operational zones. A significant number of SEZs remain at early stages of development and continue to face infrastructure, utility, financing, and operationalization challenges.

2.2 The Current Incentive Architecture

Pakistan's SEZ incentive regime rests on three primary statutory instruments. The broader framework for SEZs is set forth in the SEZ Act, 2012. Further, under Clause 126E of Part I of the Second Schedule to the Income Tax Ordinance, 2001, zone enterprises receive a ten-year exemption (or until June 30, 2035, whichever is earlier) from corporate income tax commencing from the date of commercial operations; zone developers receive a ten-year CIT exemption from the date of signing the development agreement. Under Chapter 99 (PCT 9917) of the First Schedule to the Customs Act, 1969, developers, co-developers, and zone enterprises receive a one-time exemption from customs duties and taxes on the import of capital goods, plant, and machinery required for zone establishment.

The 2026 Amendment to the SEZ Act has reflected the hard statutory cap on the CIT exemption: for all zone enterprises, the exemption now expires on June 30, 2035, or at the conclusion of the ten-year holiday period, whichever occurs first. This represents an important step in the legislative operationalisation of the 2035 IMF obligation. The coverage of the 2026 Amendment is significant, as CIT covers approximately 97% of fiscal collections foregone (AT Kearney).

2.3 SEZ Performance Summary

BOI's present framework for assessing SEZ performance includes a combination of indicators related to investment mobilization, employment generation, enterprise activity, land utilization, infrastructure readiness and broader economic impact. The most commonly reported indicators across provincial SEZ authorities include total investment attracted, jobs created, operational enterprises and industries, operational and notified zones, plot occupancy and land utilization rates, infrastructure and utility readiness. These indicators primarily focus on measuring industrial development, investor attraction and operational performance within zones.

Internationally, SEZ effectiveness is often assessed using a multi-dimensional set of indicators, including economic output, exports, balance of payments contribution, employment generation, direct fiscal revenues, contribution to national development priorities, fiscal and non-fiscal incentives, and land utilization.

AT Kearney's comparative international benchmarking and observed global experience has highlighted that successful SEZ programmes are driven by multiple factors. In countries such as China and Malaysia, SEZs have flourished, in other countries such as India, results have lagged behind expectations.

While there isn't a one-size fits all approach, in general countries with successful SEZs have structured incentives thoughtfully, and focused on provision of quality infrastructure and services. SEZ performance is driven not only by fiscal incentives but also by the broader investment

ecosystem, including infrastructure, utilities, regulatory quality, investor services, workforce availability, and market competitiveness. The study notes that China's SEZs contributed more than 22 percent of national GDP within three decades of their establishment, whereas Pakistan's SEZs are presently contributing around 0.5 percent. Notwithstanding that Pakistan's SEZ regime is still in its second decade, the experience of other countries indicates that it is worthwhile to periodically review and enhance SEZ philosophy based upon what is working/not working. It also underscores the case for incentives that align with Pakistan's business operating environment, and are effective in the national context for domestic and international investors. Additionally, that incentives won't work in isolation - other key ingredients have to be there too.

From REMIT team analysis of available BOI Survey Data conducted in June 2024 and the consultation records from May 2026, the following preliminary observations can be made: a significant number of notified SEZs have failed to reach basic operational status despite years of notification; land utilisation rates across the SEZ universe are critically low, with several zones holding substantial allotted plots that remain undeveloped; and infrastructure delivery by both developers and the public sector has fallen well short of committed timelines:



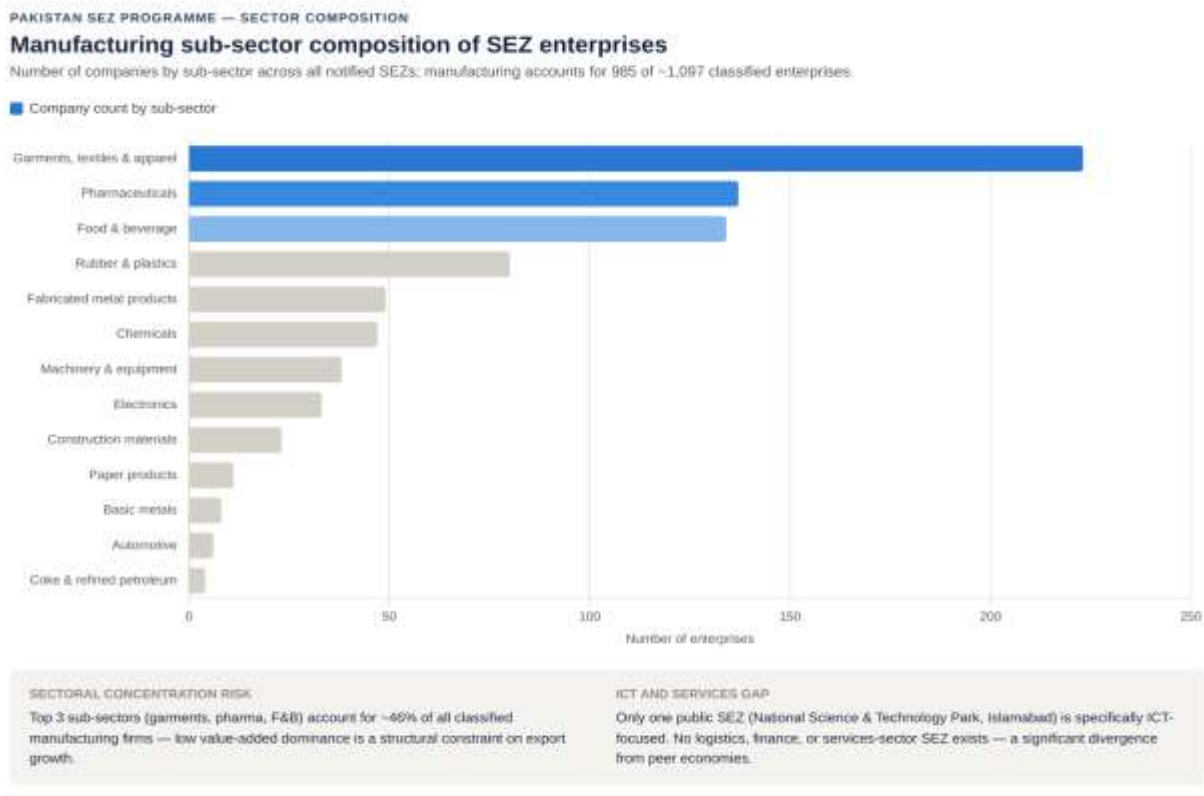
Pakistan's SEZs Performance Summary

Whether developers have met their own commitments: investment targets, employment levels, export volumes, infrastructure completion schedules, and operational milestones set out in their development agreements is an important performance metric. After additional analysis of obligations under the legal analysis workstream, BOI will be able to consider this factor in looking at the case for incentives provided in non-performing zones where developers are presently not meeting their own obligations.

In Khyber Pakhtunkhwa, the Khyber Pakhtunkhwa Economic Zones Development and Management Company (KPEZDMC) reports following performance indicator: economic zones established, investment mobilized, operational industries, jobs created, zone development status, land allocation and occupancy, and infrastructure development progress. KPEZDMC's Investment & Employment Dashboard (2025) reports that the province has established 15

economic zones, attracted approximately PKR 369 billion in investment, facilitated the establishment of 1,193 operational industries, and generated more than 109,000 jobs.

In Punjab, performance monitoring of industrial estates and Special Economic Zones is administered through three provincial entities: the Punjab Industrial Estates Development and Management Company (PIEDMC), the Faisalabad Industrial Estates Development and Management Company (FIEDMC), and the Punjab Small Industries Corporation (PSIC). The indicators tracked across these organisations centre on plots sold, land utilization, colonization rates, SEZ designation status, and investment mobilization. PIEDMC's industrial estates have collectively attracted investments of over Rs. 450 billion, including FDI of US\$ 466 million, and provided direct employment to over 200,000 people. The figure below illustrates the manufacturing sub-sector composition of enterprises operating across Pakistan's notified SEZs.



While these indicators provide a useful assessment of zone development and industrial activity, they do not fully capture fiscal efficiency or the economic returns generated by incentives. Existing KPI frameworks place limited emphasis on business performance and enterprise-level outcomes such as revenues, profitability, taxes paid, exports, value addition, productivity, and the fiscal returns generated from public support and incentives.

The proposed KPI framework in Section 8 addresses these gaps by introducing adaptive, performance-based indicators linked to investment, productivity, exports, and fiscal outcomes.

A more complete picture will emerge from the analytical workstreams. These preliminary findings will also inform the zone-level KPI domains and transition sequencing described in Section 8.

2.4 Requirement for Supplemental Deep Dive Analysis

Four analytical gaps following on from the August 2025 IMF comments cannot be resolved from existing data and will require the dedicated analytical workstreams described in Part III.

First, indirect fiscal costs, i.e. indirect public expenditure on zone setup/maintenance/operationalisation such which are not presently captured in direct cost estimates (such as PSDP capital allocations to zone infrastructure, below-market land provision, administrative overhead) were not part of the purview of the AT Kearney analysis. The supplementary fiscal cost analysis, assuming that attributable threshold data will be available.

Second - market distortion analysis. While this may not be viable to do at the level of each enterprise (and will be outside the bounds of this exercise), analysis from a sample cohort can suffice to estimate overall impact and direction of travel.

This analysis will be dependent upon data availability from relevant stakeholders.

Third, developer compliance — the degree to which developers have met contractual obligations — must be systematically assessed before zone-level incentive decisions can be justified.

Fourth, the calibration of cost-based incentives will require the preliminary analysis to be completed first.

PART II

Reform Framework

Section 3: Objectives, Scope, and Reform Principles

3.1 Core Reform Objectives

The reform is anchored by six core objectives, each grounded in the structural benchmark commitments:

Objective 1 — Full Incentive Transition by 2035

Existing SEZ incentives will be fully phased out by June 30, 2035, subject to honoring existing legal and contractual commitments. Cost-based incentives will be brought in during this transition period, starting at a pilot level in 2027, and then being offered more broadly 2030 onward to facilitate an orderly transition and support productive investment.

Objective 2 — Transition to Viable Cost-Based Incentives

Profit-based incentives will be replaced by cost-based incentives during the transition period. These incentives will be designed to support productive investment, and require close consultation with the private sector, SEZ authorities, and other federal and provincial government departments in order for effective, viable, and implementable instruments to be designed that are appropriate for Pakistan's business context. These incentives will be subject to periodic review and sunset provisions and will be calibrated. i.e. while cost-based incentives would be temporary and time bound in nature, their renewal would be based on performance.

Objective 3 — Performance-based Nature of Incentives

Cost-based incentives during the transition period will be linked to defined zone-level and enterprise-level KPIs. These KPIs may include verified qualifying expenditure, additionality, compliance, developer/operator performance, infrastructure and utility delivery, employment and skills outcomes where relevant, export performance where relevant, and fiscal contribution following CIT phase-in. A key objective of this exercise is to help devise consultation-based KPIs that can bring about a rules-based, evidence-driven framework. It will be essential for the framework to be viable from an administrative standpoint too.

Objective 4 — Legal and Contractual Integrity

All pre-existing contractual and legal obligations and commitments will be honored. Available legal mechanisms may be used to accelerate the transition where contractual provisions allow after considering risks posed by such measures in close consultation with the private sector, provincial SEZ Authorities, and other key government departments. Wherever possible, proposed measures will be complementary and progressive in nature in line with investor-protection principles.

Objective 5 — Institutional Strengthening

The governance of Pakistan's SEZ regime at federal and provincial levels will be strengthened to make the reformed framework implementable and monitorable. The Federal SEZ Authority established under the 2026 Amendment provides a new institutional platform; its effectiveness depends on clarity of mandate and integration with provincial SEZAs. Enhancing SEZ competitiveness also requires reducing administrative burden of regime governance and enhancing its effectiveness and efficiency.

Objective 6 — Sequencing with Broader Reforms

The phase-out of SEZ incentives will be synced with Pakistan's broader investment climate reforms. SIFC & BOI are engaged extensively on Business regulatory reforms including the Asaan Karobar Act, regulatory reform packages, World Bank B-READY initiatives and financial sector reforms. Future SEZ reforms can be synced with these so that the levelling of the playing field is accompanied by a genuine improvement in the business climate nationally.

3.3 Reframing the Reform

All four provincial consultation sessions conducted between May 11 and May 14, 2026 raised a consistent concern: the term 'Phase-Out' will create market anxiety, reduce cooperation, undermine data collection, and potentially dent investor sentiment. This is a significant risk; if developers perceive the reform as punitive, response rates will fall, legal challenges will be filed preemptively, and the stakeholder buy-in required for early pilot adoption may not materialise.

For this reform effort to facilitate a successful transition, it will be more feasible if it is positioned as a substantive positive enhancement on the current incentive regime, and that the potential upcoming benefits to businesses and developers are clearly communicated and kept central to design.

Globally, the best performing zones reward firms for investing, innovating, and engaging in activities that benefit the national economy directly. The transition, properly designed, can be a competitiveness upgrade for productive investors and a withdrawal of subsidy from speculative ones. The reform should therefore be presented not as the end of SEZ policy, but as a shift from profit-based fiscal incentives towards cost-based incentives. The objective being to preserve and nurture the economic potential of SEZs while placing them on a more fiscally sustainable basis.

Suggestion to reframe reform reference as: 'SEZ Transition and Competitiveness Reform' — not the 'Phase-Out Plan'. For this reform effort to facilitate a successful transition, it will have to be positioned as a positive enhancement on the current incentive regime.

The preliminary legislative roadmap supporting the implementation of these reform principles is presented in Section 10. While the detailed legislative sequencing will be informed by the legal, fiscal and institutional analyses, Section 10 provides the strategic framework for the proposed reform pathway.

PART III**Analytical Workstreams**

The reform pathway described in Part V depends on analytical work that has to be undertaken. Three primary analytical workstreams, Institutional, Legal, and Fiscal, will be completed between June and August 2026, followed by the Calibration Analysis described in Section 7.3. Together, they will provide the evidence base for calibration, incentive design, and additional legislative drafting (beyond the 2026 amendment). **These workstreams are aligned with Sections A5–A7 of the Incentives Phase Out Plan and are intended to provide the analytical basis for the legislative measures proposed under the SEZ Act.**

Section 4: Workstream 1 — Institutional Analysis

4.1 Objectives of the Institutional Review

The institutional review will pursue five objectives.

- First, it will map all institutions with decision-making authority over SEZ establishment, incentive granting, compliance enforcement, and dispute resolution — documenting not only formal mandates but actual decision-making practices.
- Second, it will identify coordination challenges between federal and provincial tiers that impede reform and performance implementation.
- Third, it will assess the existing capacity of the BOI Secretariat and provincial SEZAs to administer a performance-conditioned, KPI-linked incentive regime.
- Fourth, it will recommend required changes to the existing governance architecture for the transition period and the permanent reformed regime. While the exercise will look at coordination failures, it will not be responsible for designing information sharing platforms and coordination system(s) for the government.
- Fifth, it will define the functional allocation required for the reformed regime, including the respective roles of BOI, the Federal SEZ Authority, provincial SEZAs, developers/operators, FBR, utilities, and other regulators in policy oversight, regulatory approval, investor facilitation, infrastructure and service delivery, monitoring, tax administration, and dispute escalation. The objective is to reduce regulatory fragmentation and improve zone-level service delivery while preserving statutory authority with the competent public bodies.

4.2 Federal Governance Architecture

At the federal level, the Board of Investment occupies the central coordinating role, serving as Secretariat to both the Board of Approvals and the Task Force established in February 2026. Under the 2026 Amendment, a new Federal SEZ Authority has been established, to be chaired by the Minister for Investment with Secretary BOI as Vice-President, providing a more direct federal institutional channel for SEZs in the Islamabad Capital Territory and federally established zones. The Special Investment Facilitation Council's (SIFCs) role in strategic oversight will be critical for decisions that require cross-ministerial coordination. Engagement from the Finance Division, FBR, and Ministry of Law and Justice will also be key.

4.3 Provincial Governance and Coordination Challenges

The provincial and regional SEZ Authorities — Punjab, Sindh, Khyber Pakhtunkhwa, Balochistan, and Gilgit-Baltistan — are the primary implementation interface between federal policy and zone-level operations. Initial consultations indicate that development agreements with PBIT in Punjab have not been formally issued for several zones despite zone notification; data reporting from SEZAs to BOI is inconsistent and incomplete; and the distinction between federal and provincial responsibilities for infrastructure delivery is frequently unclear. These issues indicate that the institutional challenge is not limited to data reporting, but also includes fragmented responsibility for approvals, facilitation, infrastructure delivery, monitoring, and escalation.

The 2026 SEZ Act Amendment introduces an important change: for PPP and private sector SEZs, concession agreements executed between the relevant provincial authority and the developer now take legal precedence over the standard federal development agreement.

4.4 Task Force Governance

BOI has notified a task force on February 19, 2026 as the apex governance body for the transition. Its membership (Secretary BOI as Chair; Additional Secretary BOI; representatives of Finance Division, Industries and Production, SIFC, Law and Justice, and FBR, the CEOs of all five provincial SEZAs; and DG SEZ as Secretary) provides both federal-provincial integration and cross-ministerial ownership. The Task Force will review each deliverable before submission to the IMF, approve implementation recommendations, and provide policy direction on contested questions such as the treatment of CPEC zones and the scope of grandfathering protections.

4.5 Deliverables and Timeline

The Institutional Review will contribute to the Legal Review Report (D4) and inform the governance architecture proposed in the Calibration Analysis (D6). Its primary outputs will include an institutional mapping matrix; a governance gap analysis; recommendations for institutional reform to support transition regime administration; a proposed data reporting and monitoring framework for the transition period; and a federal-provincial coordination protocol.

These outputs should include a functional allocation matrix, a regulatory coordination and escalation protocol, and a private-sector participation framework (that distinguishes facilitation and service-delivery functions from statutory approval, tax, customs, environmental, labour, and enforcement powers).

It ought to be noted that the impact of any governance-related recommendations will depend heavily on the data availability, transmission and internal capabilities developed to handle such data to monitor executed contractual obligations.

Section 5: Workstream 2 — Legal and Contractual Analysis

5.1 Objectives of the Legal Review

The legal review has the following primary objectives:

- (a) Firstly, it will review and map the standardized template Zone Developer Agreement for operational SEZs to identify the fiscal incentives, contractual obligations and key contractual provisions governing existing exposure to SEZ incentives, as further elaborated under Section 5.3.

(b) Secondly, it will assess the statutory and regulatory framework governing SEZs, as further elaborated under Section 5.2.

(c) Lastly, based on the contractual and legislative review, it will provide a legislative sequencing plan for the further set of amendments required by June 2027.

The scope of abovementioned statutory and contractual review will be limited to fiscal incentives available to zone developers and zone enterprises pursuant to the legislative framework discussed in 5.2.

5.2 The Legislative Framework Governing SEZs

The primary legislation that governs the legal framework for SEZs is the Special Economic Zones Act, 2012 (“SEZ Act”), and the following secondary legislation:

- (i) the Special Economic Zones Rules, 2013.
- (ii) the Sole Enterprise Special Economic Zone Regulations 2020; and
- (iii) the SEZ Zone Enterprise Admission and Sale, Lease and Sub-Lease of Plot Regulations, 2021.

In addition to the SEZ Act, the relevant fiscal benefits applicable to SEZs have been codified in the Income Tax Ordinance, 2001 and the Customs Act, 1969. It is noteworthy that the aforementioned laws have recently undergone a process of amendments, including notably through the 2026 amendment.

As part of the legal review, the legislative framework will be reviewed to map and identify the profit-based incentives currently applicable to SEZs. Further, relevant domestic and international legal commitments will also be identified as part of the legal review. The review and analysis will further inform the preparation of the legislative sequencing plan (see Section 5.4).

5.3 Development Agreements

A contractual review of the Zone Developer agreements for operational SEZs, as provided by the Board of Investment, will be conducted to identify and assess the fiscal incentives and any other incentives provided therein, including the key contractual provisions relating to such incentives. For purposes of the review of Zone Developer agreements, the Board of Investment shall provide the standardized template form of Zone Developer agreement and shall identify any variations from such template in executed Zone Developer agreements to the extent such variations relate to fiscal incentives or other incentives provided pursuant to the SEZ Act. The review will be undertaken in conjunction with a review of the applicable legislative and regulatory framework described in Section 5.2.

5.4 Zone Classification Framework

Consistent with the IMF's emphasis on zone triage as part of a credible phase-out plan, this workstream will include development of a classification framework for assessing SEZs by reference to developer compliance and achievement of zone objectives. At this stage, the exercise will focus on developing a structured classification methodology, with sample application where information is available, rather than undertaking a full granular determination for each zone. In addition to legal input, development of the classification framework will require financial, fiscal, technical, and other specialist inputs, as the relevant compliance metrics may be legal, financial, operational, technical, or otherwise sector-specific. The framework will illustrate how zones may be differentiated for purposes of phased transition, enhanced monitoring, or enforcement. Based on this framework, the Board of Investment may undertake more detailed triaging work through further data collection, contractual review, and engagement with relevant developers and provincial authorities.

5.5 Legislative Amendments Sequencing Plan

Based on the review and analysis of the existing legislative and regulatory framework described in Section 5.2, together with the contractual mapping exercise described in Section 5.3, a legislative sequencing plan will be developed setting out a proposed roadmap for the transition away from profit-based incentives, including key legal and regulatory considerations and the sequence in which they may be addressed. The preliminary legislative sequencing is set out in Section 10, and will be further refined by the legal and contractual analysis.

5.6 Deliverables and Timeline

The Legal Review Report (D4) will be completed by August 31, 2026. The report will include:

- (a) a review and analysis of the legislative and regulatory framework described in Section 5.2, including the identification and mapping of fiscal incentives applicable to Zone Developers and Zone Enterprises under the Special Economic Zones Act, 2012 and related legislation.
- (b) a contractual review and mapping of the Zone Developer agreements for operational SEZs reviewed pursuant to Section 5.3, including the identification and assessment of fiscal incentives and other incentives provided therein, and the key contractual provisions relating to such incentives; and
- (c) a legislative sequencing plan described in Section 5.4, setting out a proposed roadmap for the transition away from profit-based incentives, including key legal and regulatory considerations and the sequence in which they may be addressed.

Section 6: Workstream 3 — Fiscal Cost Analysis

6.1 Basis of Analysis

The fiscal assessment builds on existing work conducted by BOI and AT Kearney. The feasibility study completed in 2025 provided the first system-wide estimate of the revenue foregone through special economic zone incentives, placing it at approximately PKR 13 billion in 2024 against direct revenues generated of about PKR 10.3 billion. I.e. a direct fiscal position close to neutral. It followed a revenue-foregone approach at an aggregate level, drawing on the zone and allottee records of the Board of Investment, aggregate tax and customs data from the Federal Board of Revenue (FBR), and the Board's survey of zone enterprises. The present work extends that study

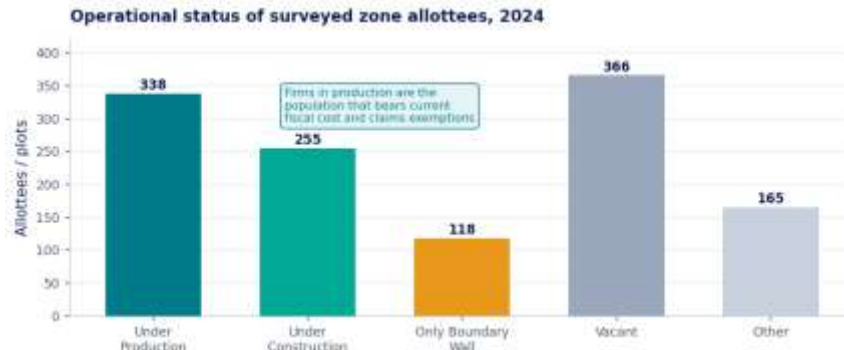
in the three areas where the IMF found the initial submission was found to require greater depth (IMF Comments, Aug 2025):

- it was aggregate rather than disaggregated to zones and firms.
- it captured the direct cost of tax and customs exemptions but not the indirect cost of public spending on infrastructure, land, and administration; and
- its view of distortions rested on the modest contribution of the zones rather than on a counterfactual.

6.2 The Data Environment and Its Implications for Methodology

The depth of the fiscal assessment will depend on the data available. **A full firm-by-firm assessment is not feasible within the timeframe.** The financial information it would require does not exist in collectable form for most enterprises, which are small and medium-sized private firms without audited accounts held in any central database; FBR data exists but is confidential and not readily tagged by zone.

Experience, including the World Bank's 2020 assessment and the 2020 study by the Pakistan Institute of Development Economics, indicates that firms are reluctant to disclose commercial information and that the means to compel them are limited, so firm level questionnaires issued in 2026 are expected to return useful but incomplete data. The assessment is also to be delivered by a small team within a few months, and therefore it will be more viable to concentrate effort where the fiscal stakes are highest and to be open about the basis of the estimates and the points at which data limits precision.

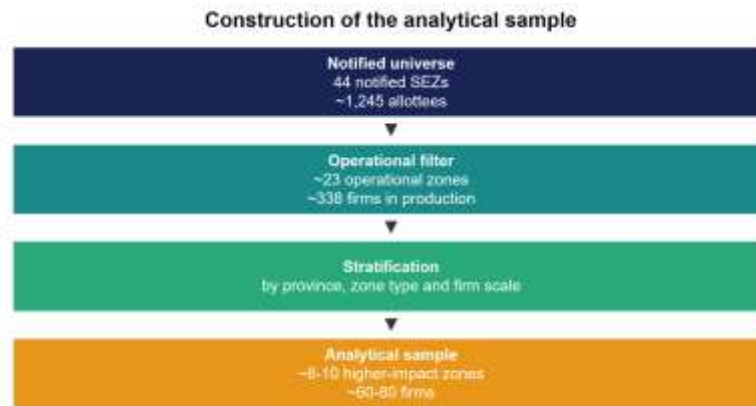


Operational status of surveyed zone allottees, 2024 (1,242 allottees across 19 zones). Firms in production bear the current fiscal cost and form a much smaller population than the full allottee list.

6.3 Sampling Approach

Consistent with the data environment and **methodological considerations described in Section 6.2**, the assessment will adopt a stratified sample weighted towards the zones and firms that account for most of the fiscal cost, which is highly concentrated in a small number of operational zones and larger producing firms. Our proposed sampling approach is built upon three steps (this may be refined further based upon data availability):

- **Narrowing down the relevant population:** of roughly 1,242 surveyed allottees, only about 338 are in production and a further 255 are under construction.
- **Stratification** across three dimensions so that it reflects the regime as a whole: **geography**, spanning Punjab, Sindh, Khyber Pakhtunkhwa, Balochistan, and the federal territory; **ownership type**, covering public, private, sole-enterprise, and public-private partnership zones; and **firm scale**, ranking firms within each zone by a proxy combining plot area, sector, and production status.
- **Finally, priority will be given to the zones and firms whose fiscal impact to 2035 is likely to be largest**, which points to a manageable core of roughly eight to ten higher-impact zones and sixty to eighty firms, with the remainder addressed by extension.



Construction of the analytical sample. Each step rests on evidence already in hand and is documented.

6.4 Direct Fiscal Cost

Direct fiscal costs are currently being generated through the corporate income tax exemption under Clause 126E of the Income Tax Ordinance, 2001 and the one-time customs duty exemption on imported capital goods under Chapter 99 of the Customs Act, 1969, together with the developer-level exemption under Section 36 and any additional benefits granted under Section 34. The earlier study covered the first two in aggregate; the present work will look to disaggregate them and add the developer-level and discretionary components.

Estimation will follow the revenue-foregone method used in the FBR's annual Tax Expenditure Report, which compares actual collection under a concession against a benchmark system without it. Using the same method will keep the estimates consistent with the figures the Government already reports and allows reconciliation against the Report's income tax and customs lines. For sampled firms the income tax foregone will be estimated by applying the statutory rate to assessed income for each year to 2035, and the customs foregone from the dutiable value of imported capital goods; for other firms the cost will be estimated by extrapolation. Estimates will be reported as ranges with stated assumptions.

However, it must be noted that the level of analysis will be contingent on the availability of firm-level income and rests on the assumption that A) import data will be obtainable from the FBR, the sampled firms, and Board and provincial records; and B) If assessed-income data is unavailable,

a less-empirical estimation may be possible from production status, plot area, and sector benchmarks, and the figures identified as estimates.

6.5 Indirect Fiscal Cost

Indirect fiscal costs (public expenditure and foregone public value beyond the tax and customs exemptions) were not quantified in the earlier study and is the principal area in which this work extends it; international experience suggests that these can at times be larger than direct tax costs, so an omission of these understates the true fiscal burden.

The proposed approach will seek to assess a series of indirect cost components. This may include, in broadly descending order of expected magnitude:

- public infrastructure expenditure, covering federal and provincial development spending on roads, utilities, and boundary connections (expected to be the largest component and the most obtainable from published budgets).
- Concessional land provision, valued as the difference between market and concessional rates and amortised over the relevant period.
- administrative cost, covering the running cost of the zone administration allocated to the regime.
- any utility or energy support provided below cost.
- And any other cost identified by BOI.

For each, an estimate will be produced for the sampled zones and extended nationally. Because the underlying information is held across several federal and provincial bodies, the depth achievable will depend on their cooperation, and each component's data basis and confidence will be made explicit. Achieving a useful estimation here will also depend on whether available data is specific and in a format attributable to the said focal Zones, which may not be the case.

6.6 The Counterfactual

IMF feedback noted that the earlier assessment of distortions was based on the limited contribution of the zones rather than on a counterfactual. We understand the counterfactual question as *“what would have happened, to investment, production, employment, and revenue, had the incentives not been offered.”* This becomes significant as the cost of an incentive is justified only to the extent that it brings about activity that would not otherwise have occurred.

A full econometric counterfactual is beyond what the data will support and will not be possible.

The team can instead look to build a reasoning based upon three proportionate methods: an additionality assessment at the level of the sampled firms, drawing on structured questions about whether and at what scale the investment would have proceeded without the incentive; a comparison between firms inside the zones and comparable firms in the same sectors outside them, using FBR and sector data to separate new activity from relocated activity, which also serves the request for evidence on distortion; and reasoning from the international evidence base,

including the World Bank's evaluations, to bound the plausible range of additionality. The results will be presented as directional and evidence-bounded and will depend upon the quality and availability of data.

6.7 Evidence Base and Data Sources

While a usable foundation in the AT Kearney assessment is available, existing publications/assessments have not produced zone level assessments that capture indirect costs or counterfactual impacts. Notably, none of the provincial authorities publishes zone- or firm-level fiscal data in their annual reports, which is why the relevant information will have to be obtained through formal request rather than from published sources.

Source	Contribution	Limitation
FBR Tax Expenditure Report	Official revenue-foregone method and aggregate expenditure figures against exemption provisions; the benchmark for reconciliation	Not disaggregated to zone or firm level
Kearney Feasibility study (2025)	Aggregate direct cost (~PKR 13bn foregone vs ~PKR 10.3bn generated, 2024); zone landscape	Aggregate only; no indirect cost or counterfactual
World Bank (2020); PIDE (2020)	Performance assessment; documents of weak data availability and reluctance to disclose information	Predate the programme; not fiscal cost studies
Board of Investment zone survey	Plot and allottee-level operational data across 19 zones and 1,242 allottees	Operational survey, not containing financial data; will assist the sampling frame
Provincial authority reports	Mandate, process, and zone listings	No zone- or firm-level fiscal data published

6.8 Coverage of the Analytical Requirements

The table below sets out how the analytical approach responds to key requirements:

Requirement	How the approach responds	Principal data dependency
Strengthen the direct cost estimate, based on analysis	Revenue-foregone method consistent with the Tax Expenditure Report, disaggregated and extended nationally	FBR and firm data; estimated where unavailable
Capture the indirect cost	A dedicated indirect cost assessment across four components	Planning and Finance Division and provincial records

Provide a counterfactual or baseline	Firm additionality, mainland comparison, and international benchmarks	Sampled-firm responses and FBR comparators
Substantiate distortion with firm-level evidence	A targeted firm-dynamics module and comparison with mainland firms	Sampled-firm survey and interviews
Disaggregate to the level of individual zones	A stratified sample by province, zone type, and firm scale, with zone-level trajectories to 2035	Survey frame (in hand)
Reassess assumptions on future growth and contribution	Contribution estimates rebuilt from recorded production status rather than pipeline projections	Survey (in hand)

6.9 Outputs and Data Dependencies

The fiscal cost analysis will be completed by the end of August 2026. Its outputs comprise a direct cost estimate disaggregated to the sampled zones and extended nationally; an indirect cost estimate across the four components; a zone-level net fiscal position for the sampled zones; an explicit counterfactual and market-distortion assessment; and the enterprise-level parameters required for the calibration analysis. The depth and precision of each will depend on the data obtained, and the assessment is built to use a transparent method, to label its estimates and the confidence attached to them, and to deepen as access improves. The timetable depends on requests for information being issued early from the FBR, the Planning Division, the Finance Division, and the provincial authorities for the relevant data. The fiscal analysis will model four transition scenarios to support the calibration work that follows. The final scenarios will be further refined with BOI.

- Scenario 1 — Status quo to 2035: All current incentives run to natural expiry or the June 2035 hard cap. Total direct and indirect fiscal cost 2026–2035 established as baseline.
- Scenario 2 — Accelerated removal for non-compliant zones
- Scenario 3 — Cost-based regime introduction at proposed rates. Revenue test: fiscal effects of the new regime relative to Scenario 1.
- Scenario 4 — Combined transition with pilot: Scenarios 2 and 3 combined, with pilot learning feeding into final national cost-based incentive design by June 2027.

PART IV

From Analysis to Action

Section 7: Transition to a Cost-Based Incentive Framework and Calibration Analysis

7.1 Transition to a Cost-based Incentive Approach

The structural benchmark agreed under the IMF programme requires that, over the transition period Pakistan progressively replace the current profit-based incentives that underpin its Special Economic Zone regime with cost-based incentives.

Profit-based incentives reduce the tax payable on income once it has been earned. Tax holidays, reduced corporate income tax rates and income exemptions belong to this category. On the other hand, cost-based incentives reduce the cost of undertaking the investment itself. They are granted in relation to qualifying expenditure (for example capital expenditure on plant, machinery and buildings, or current expenditure on R&D and training, accelerated depreciation, immediate expensing). Cost based incentives offer two potential advantages if structured appropriately. They can lower the cost of capital, moving forward projects that may not have proceeded. Second, they are more targeted and offer the state greater control of fiscal exposure.

However, global experience indicates that incentives (whether profit or cost-based), do not compensate for a weak investment climate. Where infrastructure is unreliable, contract enforcement is uncertain and where the cost of doing business is high, incentives have little effect on location decisions. This has to be kept in mind while upgrading Pakistan's incentive regime. Additionally, the unique conditions of Pakistan's geographic operating environment and institutional capacity also have to be kept in mind to design a viable regime. KPK and Baluchistan are affected by conflict, and have significant security concerns which already make it difficult to attract investment and make monitoring/administration difficult in remote areas. Careful tailoring of incentives after thorough consultation with provincial stakeholders and private sector representatives will be required.

During the SEZ Taskforce meeting held on 18 June 2026, Khyber Pakhtunkhwa emphasized that the transition framework should reflect regional disparities and higher operating costs. The province recommended security and logistics-related cost-based incentives, appropriate transition arrangements for developing SEZs, and the inclusion of a frontier SEZ in the pilot phase.

7.2 A Long-List of Potential Cost-based Instruments

The instruments set out in Table 7.2 constitute an initial illustrative long-list of possible cost-based instruments, which would be improved upon through BOI led consultations with key SEZ stakeholders during the analysis and pilot period. Eventually, the instruments which will be adopted will be KPI linked and be renewed, or modified on the basis of KPI evidence, fiscal-cost analysis, legal and contractual review, or pilot results.

The rates and parameters shown are indicative. The specific instruments, levels, eligibility thresholds, combinations, verification requirements, and durations will be established through the calibration analysis via consultation with provincial SEZ stakeholders, BOI, SIFC, and other relevant GOP authorities. Any proposal involving tax policy amendments or tax incentives will be routed through the Tax Policy Office after full quantification of fiscal impact.

Table 7.2 Long-list of candidate cost-based instruments (parameters indicative)

Instrument	How it works (indicative parameter)	Primary objective	Best-suited sectors	Key advantages	Key limitations / design risks
Accelerated depreciation	Front-loaded write-off of plant and machinery (e.g. 150–200% of normal first-year allowance)	Lower the cost of capital for capital-intensive investment	Auto, steel, chemicals, food processing	Bounded by expenditure; boosts early cash flow; treated favourably under the global minimum tax	Benefit is a timing one in present-value terms; requires reliable asset registers
Immediate expensing	100% deduction of qualifying tangible assets in the year of acquisition	Strongest cost-of-capital and cash-flow effect	Capital-intensive manufacturing; automation	Simple in concept; strong additionality for constrained firms; minimum-tax friendly	Large up-front revenue timing cost; verification of expenditure essential
Investment allowance	Additional deduction of a share of qualifying CAPEX (e.g. 60–100%) offset against part of statutory income, with carry-forward	Reward substantial capital deployment	Promoted manufacturing and agro-processing	Proven model (Malaysia); can be gated on value addition and linkages	Requires statutory income to absorb; administratively heavier
Investment tax credit	Credit of a share of qualifying CAPEX (e.g. 10–25%) against tax liability, with carry-forward; may be refundable	Direct subsidy to capital formation	Priority manufacturing; renewables	Visible and capped; refundable form can qualify favourably under minimum-tax rules	Refundability raises fiscal cost; gaming risk; needs robust verification
R&D super-deduction	Enhanced deduction of eligible R&D expense (e.g. 150–200%)	Innovation and technology upgrading	Pharma, electronics, IT, hi-tech	Targets value addition and spillovers; modest per-firm cost	Defining and auditing R&D is difficult; risk of re-labelling ordinary costs
Training / skills deduction	Enhanced deduction of approved training expense (e.g. 150–200%)	Human capital and quality of employment	All sectors, especially labour- and skill-intensive	Inexpensive; broadly applicable; addresses a real constraint	Small individual benefit; requires verification of genuine training
Employment / wage credit	Credit or deduction per net new qualifying job, or a share of incremental payroll for a fixed period	Employment generation	Textiles, garments, light manufacturing	Directly addresses the employment objective and KPI	Deadweight and churn risk; “net new” jobs hard to monitor
Automation / technology allowance	Enhanced allowance (e.g. 100–200%) on automation and digital equipment	Productivity and industrial upgrading	Manufacturing modernisation	Raises productivity; complements depreciation	Requires capacity to verify qualifying technology spend
Infrastructure / utility	Partial reimbursement of qualifying on-site or connection costs	Address the binding infrastructure	All enterprises in greenfield or	Targets Pakistan’s most-cited deterrent rather than tax	Budgetary outlay; governance and

Instrument	How it works (indicative parameter)	Primary objective	Best-suited sectors	Key advantages	Key limitations / design risks
matching grant		constraint directly	under-served zones		selection safeguards needed
Targeted capital-goods duty treatment	Rule-based, time-bound relief or deferral of duty on capital goods (re-framing the existing exemption)	Lower entry cost of plant not made domestically	Capital-importing manufacturers	Builds on an existing mechanism; lowers set-up cost	Leakage risk; must avoid export- or local-content contingency under WTO rules

A practical configuration could combine a small core of capital-cost instruments available across zones (such as accelerated depreciation or expensing together with a training deduction) with a narrower set of enhanced or sector-specific instruments introduced selectively and first tested through the pilot. Each cost-based instrument will require published eligibility criteria, reporting requirements, periodic review, and sunset provisions. The calibration analysis will determine whether instrument-specific caps or ceilings are required and will provide the analytical basis for assessing the design and fiscal implications of the proposed cost-based incentive framework.

7.3 Feasibility and Safeguards

In the Pakistan context, the transition from profit-based incentives to a cost-based incentive framework must balance competitiveness with administrative practicality, and institutional capacity. Thus far, Pakistan's SEZ experience has shown that even well intentioned measures have at times led to unintended consequences. For example, interpretations over federal vs. provincial jurisdictions underscore the need for simple, easy to administer rules. Given the present mainly analog state of processing and procedure, the success of a complex incentive structure will be unlikely and susceptible to abuse.

Administratively, a cost based framework will require linking deductions to qualifying, new, audited, and SEZ-linked expenditure; be ring-fenced to eligible SEZ activity; be subject to verification; and be cross-checked by FBR against tax filings, customs data, financial statements, and BOI/SEZA performance data. In practice, this will require significant consultation with SEZ Authorities, FBR, and BOI/SIFC to establish workable administrative mechanisms.

7.4 Calibration

Calibration will be conducted at the enterprise and developer level, using financial data from the questionnaire responses and BOI Survey Data. A primary analytical question will be at what rate cost based and other incentives would have to be set, in order to result in a manageable level of fiscal exposure while incentivizing investment and SEZ success?

The calibration methodology will proceed in three stages.

- First, enterprise-level financial modelling: for a representative sample of zone enterprises across zone types and sectors, model the net after-tax return under: (i) current CIT holiday; (ii) proposed CIT phase-in with cost-based deductions; and (iii) full CIT after 2035.
- Second, zone-level aggregation: aggregate enterprise results to the zone level to assess the zone-level fiscal position under each scenario.

- Third, national calibration: aggregate to the portfolio level and test against the fiscal cost envelope established in the fiscal analysis.

7.5 Potential Differentiated Transition Paths by Zone Category

Achieving an orderly transition and avoiding a cliff-off situation is central to the approach of this exercise, and highly significant for business and investor confidence in Pakistan. The eventual transition pathway must not be one which increases already fragile investor confidence in the country, which other GoP reforms are working to shore up. A prudent application of the cost-based framework will require sequencing transition according to SEZ maturity.

A sample framework for this is presented below, which will be further developed during the assessment period based upon consultations with SEZ Authorities, BOI, and SIFC:

SEZ Maturity Stage	Sequencing Decision	Conditions / Safeguards
Planning / processing stage, or notified zone with no admitted enterprises	Remain within assessment and legal review.	Status determination after review.
Under-development zone with admitted enterprises but limited operations	Prepare for transition only after legal, data, and reporting readiness are confirmed.	Confirm legal status, developer obligations, enterprise admission status, data availability, and KPI reporting capacity before introducing the cost-based framework.
Partially operational / maturing zone	Introduce transition in phases, beginning with KPI reporting, verification systems, and eligible enterprise claims under the eventual approved framework.	Efficacy of cost-based incentives should be tested.
Operational, compliant, and data-ready zone	Suitable for pilot, early-transition pathway, or first-stage rollout,	Eligible enterprises may claim deductions only under published rules, with KPI reporting and FBR verification.

	subject to legal and fiscal review.	
Mature compliant zone	Suitable for broader rollout after pilot evaluation, subject to continued compliance and periodic review.	The full cost-based framework may apply under the approved rules, with continued monitoring of fiscal cost, KPI performance, and enterprise additionality.
Non-compliant zone or enterprise	Enforcement, renegotiation, or withdrawal should occur before any new support is provided.	Access should follow compliance cure, renegotiation, or another legally available transition mechanism, subject to existing commitments.

SEZ Transition Sequencing Framework

The framework should be sequenced by readiness rather than fixed dates. The specific timing for each zone will depend on the legal review, fiscal analysis, calibration analysis, pilot design, and pilot evaluation.

7.6 Deliverables and Timeline

The Calibration Analysis Report (D6) will be completed by September 30, 2026. Its outputs will include calibrated deduction rates and qualifying criteria for proposed cost-based incentives; transition scenarios; and differentiated incentive paths by zone category.

Section 8: KPI Framework for SEZ Performance Assessment

8.1 Rationale: Towards Competitive SEZs

SEZ performance in Pakistan is currently monitored through indicators used by provincial SEZ authorities, developers, management companies, and federal institutions. Based on annual reports, performance dashboards, and the AT Kearney SEZ and EPZ Feasibility Study (2025), the most commonly tracked indicators include investment mobilization, employment generation, enterprise activity, land utilisation, infrastructure readiness, exports, and fiscal contribution. These metrics primarily assess industrial activity, zone development, and operational performance. Provincial authorities typically monitor indicators such as investment attracted, jobs created, operational enterprises and industries, plot occupancy, land utilisation, and infrastructure and utility availability. For example, KPEZDMC tracks investment mobilized, employment generated, and operational industries established as key performance indicators.

In other economies in the region, SEZ performance is assessed using a broader set of measures. China evaluates investment, industrial output, exports, employment, productivity, and technological upgrading; Vietnam monitors investment, exports, employment, occupancy rates, industrial production, and fiscal contribution; Malaysia focuses on investment, exports, value-added manufacturing, technology intensity, and local supplier linkages; South Korea tracks FDI, innovation, R&D activity, and high-technology investment; while UAE free zones assess trade volumes, investment, employment, logistics throughput, and investor satisfaction.

Global experience suggests that successful SEZ programmes increasingly measure broader economic outcomes. Zone-level monitoring should remain distinct from enterprise-level eligibility for cost-based instruments.

Based on existing reporting practices, international benchmarks, and data availability, this study will assess the feasibility of adopting a practical KPI framework for Pakistan that serves three functions: assessing zone-level performance and delivery constraints; verifying enterprise-level eligibility for cost-based instruments; and informing whether instruments should be maintained, modified, narrowed, allowed to expire, or renewed. The framework outlined below is preliminary and will require finalization after analytical workstreams are completed.

8.2 Zone-Level KPIs

The zone-level KPI assessment will examine existing obligations, monitoring arrangements, and data availability before finalising practical performance indicators. This assessment will cover: contractual obligations agreed at zone approval, notification, or execution of the relevant development or concession agreement; obligations imposed by the relevant SEZA; performance criteria used by developers, management companies, or operators; monitoring and data-sharing arrangements among enterprises, developers, SEZAs, BOI, FBR, and other authorities; and whether existing data systems can support practical, measurable, and sustainable KPI monitoring.

Indicative zone-level KPI domains may include:

- **Infrastructure and utility performance:** availability and reliability of power, gas, water, wastewater, internal roads, and related service standards.
- **Legal and contractual compliance:** compliance with the SEZ Act, SEZ Rules, development agreement, concession agreement, zone approval conditions, and applicable developer or operator obligations.
- **Land utilisation and operationalisation:** occupancy, vacant or boundary-walled plots, construction status, commencement of operations, and commercial production.
- **Developer/operator performance:** O&M delivery, investor servicing, shared services, grievance handling, and compliance with development or concession agreement obligations.
- **Regulatory service delivery:** approval timelines, NOC processing, utility-connection timelines, SEZMIS usage, and escalation or resolution of pending applications; and
- **Data and reporting readiness:** availability of enterprise records, developer records, SEZA reporting, BOI dashboard compatibility, and FBR data-linkage capacity.
- **Aggregated enterprise outcomes:** investment executed, employment, exports where applicable, local linkages where data is available, and tax contribution following CIT phase-in.

Final KPI definitions, formulas, baselines, reporting responsibilities, and thresholds will be refined through the legal review, fiscal analysis, calibration analysis, and pilot design process.

8.3 Enterprise-Level KPIs (for cost-based deduction eligibility)

Enterprise-level KPIs generally serve two distinct functions: verifying eligibility for cost-based instruments and generating evidence on whether enterprises are producing additional economic activity. For eligibility purposes, KPIs should be instrument-specific, auditable, and proportionate to the benefit claimed. They should confirm that support is linked to actual, incremental, attributable, and verifiable SEZ activity. They should not be used as proxies for wider zone performance, which will be assessed separately through the zone-level KPI framework.

- **Verified CAPEX expenditure:** CAPEX deductions can be linked to audited SEZ-related capital expenditure incurred during the relevant fiscal year. No minimum investment threshold should be established to avoid creating barriers to entry for eligible enterprises.
- **Employment and skills contribution:** Employment should be monitored, but a fixed employment-per-investment ratio should not be a universal condition for CAPEX deduction eligibility. Capital-intensive or technology-upgrading investment may raise productivity without generating proportional headcount increases. Training deductions should be linked to verified training and workforce development expenditure.
- **Export and additionality performance:** For export-mandated zones or enterprises admitted on an export-oriented business plan, export performance may be used as a relevant KPI. For other enterprises, alternative additionality indicators may include import

substitution, local supplier development, technology transfer, productivity gains, formalisation, or future tax contribution after CIT phase-in.

- **R&D and training expenditure:** R&D and training deductions can be tied to actual audited expenditure, with definitions and verification protocols established before pilot launch. R&D claims can be tracked separately from CAPEX and training, given their distinct rationale linked to innovation, technology transfer, productivity improvement, skilled employment, and export sophistication.

Enterprise-level eligibility should be limited to expenditure that is incremental, attributable to qualifying SEZ activity, and verifiable through audited records. Passive landholding, routine operating costs, refinancing, related-party transfers, or the mere relocation of existing activity should not qualify for cost-based deductions.

KPIs will provide an evidence base for periodic, rules-based review of incentives and whether they should be renewed, modified, narrowed, allowed to expire, or discontinued. Reviews will have to be conducted against the objectives of the relevant instruments while respecting existing legal commitments and avoiding abrupt or retrospective changes to support already earned under the applicable framework.

Where KPI evidence shows that an instrument is not generating intended outcomes, the instrument may be adjusted or discontinued prospectively through the defined review process. Where pilot evidence shows that a KPI is poorly specified, administratively burdensome, or not sufficiently linked to the intended reform objective, it may be recalibrated before wider rollout.

8.4 Governance and Monitoring Architecture

Zone enterprises should report agreed operational and performance data through a standardised template. Developers and zone operators may consolidate zone-level data and provide factual confirmation of activity within the zone. Provincial SEZAs should verify zone-level compliance, developer obligations, and KPI performance. BOI should maintain the national reporting framework and consolidated dashboard for Task Force oversight. FBR should retain final authority over the deductibility or tax treatment of any cost-based claim.

The framework should establish escalation channels for regulatory bottlenecks affecting zone performance, including delays in enterprise admission, NOC issuance, utility connections, building approvals, customs facilitation, environmental approvals, or unresolved investor grievances. These protocols should track and resolve delays without transferring statutory authority away from the competent regulator.

KPI definitions, thresholds, verification requirements, reporting formats, and dashboard requirements will be tested through the pilot programme described in Section 9. Pilot evidence will be used to determine whether indicators are measurable, auditable, administratively feasible, and linked to the intended reform outcomes. Where evidence shows that an indicator is poorly specified, excessively burdensome, or insufficiently linked to the intended objective, it may be recalibrated before wider rollout. Any recalibration should be rules-based, prospective, and conducted against published criteria, while respecting existing legal commitments and support already earned under the applicable framework.

Reporting requirements should be proportionate and should rely, wherever possible, on existing tax, accounting, customs, SEZMIS, utility, and audited financial records. The framework should avoid creating a duplicative reporting system.

Section 9: The Pilot Programme

9.1 Rationale for a Pilot-First Approach

The transition to a cost-based incentive regime represents a fundamental behavioural and administrative change for enterprises, developers, and regulatory authorities. Testing the proposed cost-based incentive transition framework in a single zone before national rollout is necessary to validate the proposed framework and ensure it can survive real world conditions. The pilot will provide an opportunity to do this, and is an essential feature of the reform programme. Inter alia, it will seek to address the following:

- i. Will a cost-based incentive model work for developers and enterprises in Pakistan?
- ii. Will the administrative systems — KPI reporting, deduction verification, portal integration function effectively?
- iii. What may be the initial investor response in terms of early adoption rates?

9.2 Pilot SEZ Selection Criteria

The pilot SEZ has not yet been selected; selection will follow completion of D4 (Legal Review), D5 (Fiscal Cost Analysis), and D6 (Calibration Analysis) to ensure the selected zone is legally viable, fiscally appropriate, and capable of generating useful implementation evidence. However, there is also an implementation risk involved in this process.

The selection will be guided by the following published criteria:

- Operational maturity: the zone must be operational so that enterprise-level financial data is available and cost-based deductions can be meaningfully claimed and tested
- Zone type priority: consistent with IMF guidance, sole-enterprise SEZs may be considered as first movers where they offer lower administrative complexity, clearer legal authority, and greater negotiability; however, final selection should be based on legal clarity, operational viability, data quality, developer/enterprise buy-in, and potential to demonstrate replicable reform lessons.
- Developer willingness: the pilot requires developer and enterprise buy-in; preliminary consultation will assess openness to early adoption
- Data quality: the zone may have reasonably complete financial and operational data to support effective KPI monitoring
- Legal clarity: the zone's development and, where applicable, concession agreements must not present insurmountable legal obstacles to the incentive transition
- Additionality and implementation risk: the pilot may not be selected solely from the best-performing zones, as this may limit the ability to demonstrate improvement. It may not be selected from zones with unresolved non-compliance, major legal disputes, or fundamental infrastructure failure, as these risks could obscure the effectiveness of the pilot. Preference should be given to an existing notified SEZ that is legally compliant or capable of rapid cure, operationally viable, data-ready, and underperforming relative to its commercial potential.

- Private-sector implementation capacity: the pilot should have a developer, operator, or zone management structure capable of supporting investor facilitation, infrastructure and O&M delivery, operational reporting, grievance intake, and KPI monitoring. Selection should favour zones where private-sector participation can be tested as a service-delivery and coordination mechanism.
- Locational and infrastructure readiness: the pilot may not be prevented from testing the reformed model by binding infrastructure or connectivity constraints. Selection should consider whether material on-site and off-site constraints — including access roads, power, gas, water, wastewater, logistics links, and worker access — are identifiable and capable of being addressed within the pilot timeframe.

9.3 Legal Basis and Pilot Design

The pilot will operate under special legal authority established through Workstream C2 — the preparation of legal grounds for the pilot run of cost-based incentives. This ensures that the pilot is legally robust from the outset, and that any cost-based deductions claimed under the pilot are properly authorised under Pakistan's tax and SEZ legislative framework.

The pilot incentive structure will implement the calibrated cost based regime designed in D6. It will provide practical evidence to validate and refine the calibrated incentive framework, implementation arrangements and monitoring mechanisms before broader implementation. Customs duty treatment will be determined by the legal review of existing one-time exemption entitlements. The pilot governance will include a quarterly KPI data collection; semi-annual evaluation reports; and IMF progress briefings meetings.

9.4 From Pilot to National Rollout

The pilot's findings on incentive uptake, administrative feasibility, investor response, and fiscal impact will be used to refine and calibrate the cost-based incentive transition framework before informing the final legislative text for the Round 3 amendments (C8), which will legislate the national rollout following pilot evaluation. It may be considered that Zones that wish to voluntarily adopt the cost-based regime during the pilot phase may be able to do so under the legal authority established in C2, creating an early adoption pathway. National rollout should proceed in phases rather than as an automatic expansion. Expansion beyond the pilot should depend on verified pilot performance, enterprise uptake, administrative feasibility, fiscal impact, investor response, and the readiness of additional zones to meet legal, data, governance, and infrastructure requirements.

Likewise, voluntary early adoption of cost-based incentives during the pilot phase should be subject to the same readiness criteria, including legal clarity, data availability, developer and enterprise buy-in, and capacity to report against the pilot KPI framework.

The Pilot Design Document (D7), which will primarily be extracted from the analysis and outcomes of the work above, will be completed by October 30, 2026. It is anticipated that the pilot will be launched by June 2027, concurrent with the enactment of the revised SEZ Act. Monitoring will run from September 2027 through June 2029, with evaluation in July–August 2029. Pilot findings will also be helpful in refining KPI definitions, thresholds, verification rules, reporting templates, escalation protocols, and dashboard requirements in order to make any required adjustments to the cost-based regime before wider rollout.

PART V

The Reform Pathway and Risk Framework

Section 10: Reform Pathway to 2035; Preliminary Legislative Sequencing and Milestone Map

10.1 Overview: Four Phases

Section 10 links the reform objectives in Section 3 to the legislative and implementation process through which the 2025–2035 SEZ transition will be delivered. It does not predetermine the final legal text of the amendments. Specific drafting will follow completion of the Legal Review, Fiscal Cost Analysis, Calibration Analysis, pilot design, and stakeholder consultations and after determining where legal measures may be required and where administrative changes to rules of business may suffice. The roadmap below, in line with BOI-IMF understandings in October 2025, identifies the purpose of each step so that the legislative process remains sequenced, evidence-led, and aligned with the IMF structural benchmarks.

Phase A (Planning and Assessment, October 2025 to December 2026) is currently active.

Phase B (Pilot on Cost-Based Incentives, January 2027 to February 2029) will begin following the completion of Phase A analytical work and the enactment of the revised SEZ Act.

Phase C (Drafting and Finalising Legislative Amendments, October 2025 to July 2029) runs in three rounds, largely in parallel with Phases A and B.

Phase D (Nation-wide Rollout and Annual Reviews, July 2029 to June 2035) completes the transition. The key milestones within this framework are as follows.

Ref	Action / Deliverable	Responsible	Deadline
D2	Concept Note (this document) Objective: Define the scope, objectives, expected outcomes, KPIs, and transition logic for the SEZ Act amendments.	BOI	End-June 2026
C1	Finance Bill 2025-26 amendments incorporated in SEZ Act, 2012 Objective: Establish the outer limit for the enterprise CIT exemption. This converts an open-ended tax entitlement into a time-bound transition measure.	BOI	June 2026
D3	Financial and operational data collection complete	BOI	July 30, 2026

	<p>Objective: Establish the financial and operational evidence base needed for legal, fiscal, KPI, and calibration work. This reduces the risk of legislating without reliable zone- and enterprise-level data.</p>		
D4	<p>Legal Review and Contractual Obligations Mapping</p> <p>Objective: Map the current incentive structure and identify legal and contractual obligations accordingly.</p>	BOI	August 31, 2026
D5	<p>Fiscal Cost Analysis Report</p> <p>Objective: Quantify direct and indirect fiscal costs and assess counterfactuals and market distortions.</p>	BOI	August 31, 2026
C2	<p>Legal grounds for pilot run of cost-based incentives prepared</p> <p>Objective: Prepare the legal grounds for a controlled pilot of temporary cost-based instruments. This allows administrability, verification, KPI design, and investor response to be tested before wider rollout.</p>	BOI	September 30 2026
D6	<p>Calibration Analysis Report</p> <p>Objective: Calibrate eligible instruments, rates, durations, thresholds, caps, and verification requirements against fiscal cost, additionality, and administrative feasibility.</p>	BOI	September 30, 2026
D7	<p>Pilot SEZ Design Document and Incentive Design Framework</p> <p>Objective: Translate the calibrated framework into a pilot design, including governance, monitoring, KPI reporting, and implementation arrangements. This provides</p>	BOI	October 30, 2026

	the operational bridge between analysis and legislation.		
C3	<p>Draft legislative and regulatory amendments (Round 2)</p> <p>Objective: Convert the legal, fiscal, contractual, and calibration findings into draft amendments and supporting regulations.</p>	BOI	December 2026
C4	<p>Parliamentary and stakeholder consultations on draft amendments</p> <p>Objective: Stakeholder consultations with provinces, SEZAs, developers, enterprises, FBR, Finance Division, and other stakeholders. This supports investor confidence, legal feasibility, and federal-provincial ownership.</p>	BOI	July 2026 – March 2027
C5-C6	<p>Regulatory approvals; submit to Parliament</p> <p>Objective: Secure formal regulatory, fiscal, legal, and parliamentary approvals. This ensures that the reform package is institutionally owned and consistent with the IMF benchmark before enactment.</p>	BOI	January – April 2027
C7	<p>Enact revised SEZ Act and supporting regulations</p> <p>Objective: Enact the revised SEZ Act and supporting regulations. This should establish the legal framework for the 2026–2035 transition, including the phase-out of current profit-based fiscal incentives, cost-based transition, and removal/alignment of discretionary powers.</p>	BOI	June 2027 (SB)
B5	<p>Pilot Programme launched</p> <p>Objective: Launch the pilot to test whether the transition framework can be administered in practice. The pilot should test enterprise</p>	BOI	June 2027

	uptake, verification capacity, KPI reporting, fiscal impact, and investor response.		
B6	<p>Pilot monitoring and reporting</p> <p>Objective: Monitor pilot performance and generate evidence for refinement. Pilot results should inform KPI definitions, verification rules, thresholds, reporting templates, and whether instruments should be maintained, modified, narrowed, allowed to expire, or not renewed.</p>	BOI	Sep 2027 – Jun 2029
C8	<p>Nation-wide rollout legislative amendments drafted and enacted</p> <p>Objective: Prepare any further amendments needed for wider rollout after pilot evaluation. Wider rollout should be based on verified pilot performance, fiscal sustainability, administrative feasibility, and zone readiness.</p>	BOI	Oct 2029 – Mar 2030
—	<p>Full phase-out of profit-based incentives complete</p> <p>Objective: Complete the phase-out of current fiscal incentives by 30 June 2035.</p>	BOI / FBR / SEZAs	June 30, 2035

10.2 Expected Legislative Outcomes

The June 2027 legislative package, corresponding to Round 2 of the reform pathway, is expected to constitute a substantive legislative step in the SEZ transition. The specific formulation and text of the amendments will be determined following completion of the Legal Review, Fiscal Cost Analysis, Calibration Analysis, and stakeholder consultations (see Section 10.1 above). At the strategic level, the expected outcomes of the legislative package are presented below as follows:

Statutory phase-out of SEZ-specific fiscal incentives. The amendments should establish the legal framework for phasing out current fiscal incentives by 30 June 2035, including the CIT sunset introduced through the 2026 Amendment and any remaining ones subject to pre-existing commitments. This contributes to Objective 1 by establishing a time-bound transition framework.

Removal of discretionary tax-incentive powers. The amendments should remove or limit the authority of SEZ institutions to grant tax incentives outside the approved legal framework. Future

tax policy changes should be routed through the Tax Policy Office following fiscal impact assessment. This contributes to Objectives 1, 2, and 5.

Legal basis for cost-based incentives. The amendments may provide a legal basis for cost-based incentives, subject to calibration, fiscal assessment, eligibility criteria, verification, review, and sunset provisions. This contributes to Objectives 2 and 3.

KPI-linked eligibility and monitoring. The amendments should establish KPI-based eligibility, reporting, verification, and periodic review for cost-based incentives. This contributes to Objective 3.

Pilot programme and early adoption. Where required, the amendments should provide the legal basis for the pilot programme and voluntary early adoption, without introducing new open-ended fiscal incentives. This contributes to Objectives 2, 3, and 4.

Treatment of legal and contractual commitments. The amendments should be aligned with the legal and contractual review to respect binding commitments while enabling transition where legally permissible. This contributes to Objective 4.

Institutional coordination and monitoring. The amendments should clarify the future role alignment of the BOI, SEZ Authorities, FBR, Finance Division, and other relevant institutions in implementation, monitoring, and enforcement. This contributes to Objective 5.

Sequencing with broader investment climate reforms. The legislative package can complement wider reforms, including regulatory streamlining, digital approvals, utility coordination, one-stop-shop services, and transparent land administration. This contributes to Objective 6 by strengthening competitiveness beyond fiscal incentives.

10.3 Sequencing with Broader Investment Climate Reforms

The SEZ legislative amendments are part of Pakistan’s broader investment-climate reforms that are underway. These include economy-wide measures such as regulatory streamlining, digital approvals, time-bound service standards, one-stop-shop functionality, utility-connection service-level agreements, grievance resolution, transparent land-use rules, and improved coordination between BOI, provincial SEZAs, FBR, utilities, and other competent authorities. Reforms in these areas can support SEZ competitiveness.

Achieving synergies in the following potential areas, among others, can be considered for sequencing with the SEZ incentive transition and, where appropriate, tested through the pilot before wider rollout:

Reform area	Role in SEZ transition	Legislative / implementation implication
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Regulatory streamlining	Reduces reliance on fiscal incentives by lowering approval and compliance costs	Establish service standards, digital tracking, and escalation mechanisms
One-stop-shop / investor facilitation	Improves investor experience	Clarify BOI, SEZA, developer/operator, and agency coordination roles
Utility coordination	Addresses a major non-fiscal cost driver for investors	Create utility-connection SLAs, outage-reporting protocols, and escalation mechanisms
Land-use and occupancy management	Improves productive use of SEZ land and reduces speculative holding	Strengthen plot-use, transfer, build-or-operate, and performance rules
Grievance resolution	Reduces investor uncertainty during the incentive transition	Establish time-bound grievance handling and escalation to SEZA, BOI, or the Task Force
Monitoring and KPIs	Ensure reforms are measurable and linked to rollout decisions	Link pilot evaluation to zone-level, enterprise-level, developer/operator, and regulatory-service KPIs
Private operator participation	Improves investor servicing, infrastructure delivery, O&M, and grievance intake without creating new fiscal privileges	Define developer/operator roles in facilitation, service delivery, reporting, and escalation while preserving statutory approvals with competent authorities

For example, one area in particular which would be both responsive to the demands of the Pakistani business community and enhance the efficiency of the SEZ governance regime, would be to accelerate the development and offering of one-stop shop services to SEZ developers and zone enterprises. This could be done, for example, by evaluating the prospects for synergies and collaboration with existing one-stop shops, such as the Pakistan Single Window (which offers trade-linked digital services to export-oriented firms). It can be further explored whether these services could be offered via central system available across the country (as in the case of Egypt's SEZ administration).

The pilot SEZ will be used to test administrative and governance reforms that can later be scaled nationally. The aim of the pilot would be to test whether investor costs can be reduced through faster approvals, clearer rules, stronger utility coordination, improved developer/operator performance, and effective grievance-resolution mechanisms. Developers or private operators may support this process by operating the investor-facing front office, coordinating applications, providing factual confirmation of zone-level activity, and delivering infrastructure and services under defined KPIs. However, statutory approvals should remain with the competent public authorities, and FBR should retain final authority over tax matters.

Section 11: Risk Assessment and Mitigation

The transition to a reformed SEZ incentive framework presents a range of legal, economic, institutional and implementation risks that should be identified and addressed throughout the reform process, such as the following:

Risk Category	Key Risks
Legal and Treaty based Risks	Potential investor-state disputes under Bilateral Investment Treaties (BITs), contractual obligations, and stabilization clauses may constrain the modification or withdrawal of existing fiscal incentives.
Economic and Investment Risks	Changes to the incentive framework could reduce investment inflows, affect investor retention, increase the risk of capital relocation, reduce exports and economic activity, and adversely impact employment within SEZs.
Reputational and Political Risks	Abrupt or poorly communicated reforms may undermine investor confidence, generate resistance from provincial governments and private stakeholders, and weaken Pakistan's reputation as a stable investment destination.
Operational and Administrative Risks	Implementation may be affected by institutional capacity constraints, inter-agency coordination challenges, increased administrative burden, and compliance difficulties during the transition to a new incentive framework.
Compliance and Enforcement Risks	The transition may create opportunities for tax avoidance, regulatory arbitrage, and inconsistent application of the revised framework, requiring robust monitoring, enforcement mechanisms, and KPI-based oversight.

Source: AT Kearney SEZ & EPZ Study June 2025

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Annex A: Case Study - Egypt's Overhaul of Investment Incentives

Amongst economies that have recently overhauled their investment incentives, Egypt offers a close parallel to Pakistan. It is a large country with a young population and a persistent external financing gap, and it reformed while under an International Monetary Fund Extended Fund Facility. Egypt acted not as China and Malaysia did once their zones had matured, but in the middle of a stabilisation programme, the circumstance Pakistan faces today.

Before the reform, Egypt relied on standing tax holidays granted under its Investment Guarantees and Incentives Law of 1997. These exemptions cost revenue without reliably changing investment decisions, and were hard to administer and to value. When Egypt entered a three year, twelve billion dollar Fund programme in 2016, the authorities floated the currency, began to unwind energy subsidies and committed to rebuilding the business climate. A new investment law followed in 2017 as part of that wider package.

The 2017 law replaced the holiday regime with relief calculated on what a firm actually invests.¹ Qualifying projects can deduct a share of their investment cost from taxable profit, set at fifty per cent in the least developed governorates and thirty per cent for priority activities such as labour intensive manufacturing, renewable energy, automotive, pharmaceuticals and agriculture. The deduction is capped at eighty per cent of paid up capital and runs for up to seven years. Imported machinery carries a single low customs rate, and the State may share the cost of utilities and worker training. Investors already operating kept their entitlements until those expired, which protected confidence, and administration was consolidated in a single body, the General Authority for Investment and Free Zones.

The incentive change took place alongside a broad macroeconomic adjustment and has been reported to increase transparency and ease control of fiscal exposure and support was aimed at priority sectors and lagging regions rather than spread across all profits.

Egypt's experience carries several insights for Pakistan. As with other economies, redesigning incentives works only as part of a wider reform. Egypt paired the new law with currency, subsidy and licensing measures, and the investment response followed the whole package rather than the tax change alone. Relief tied to investment cost can be steered deliberately, towards the sectors and places a government most wants to develop. Protecting the acquired rights of existing investors, as Pakistan proposes through the grandfathering of incentives to 2035, is what makes such a transition credible. However, Egypt's experience also warrants caution - a cost-based (expenditure deduction) based regime is harder to administer than a tax holiday. It needs a clear definition of qualifying expenditure and the capacity to verify it, which Egypt met by concentrating administration in one capable authority. Pakistan may need to do the same.

¹Investment Law No. 72 of 2017, which replaced the Investment Guarantees and Incentives Law No. 8 of 1997. The Article 11 incentive is a deduction from taxable profit equal to a share of investment cost, capped at 80 per cent of paid-up capital and available for up to seven years.

Annex B: Review Meeting with SEZ Taskforce & Provincial Stakeholder Consultations

Review Meetings held with SEZ taskforce on June 9 & 18 2026. Meeting Summary is as follows

Meeting	Summary
<p>1st Review Meeting of the SEZ Task Force (9 June 2026)</p>	<p>The first meeting of the SEZ Task Force, chaired by the Secretary, Board of Investment (BOI), reviewed the draft SEZ Competitiveness & Transition Plan – Concept Note and the proposed roadmap for transitioning from profit-based to cost-based incentives.</p> <p>Chairman endorsed continued stakeholder consultations and requested all provincial governments to review the draft and provide written comments before finalisation.</p> <p>Punjab highlighted the importance of maintaining investor confidence and protecting existing contractual commitments, while noting that high financing costs, infrastructure gaps and macroeconomic conditions could affect the pace of SEZ development.</p> <p>Sindh emphasized safeguarding existing approvals and agreements, ensuring continued consultation with Provincial SEZ Authorities, and developing transparent performance criteria that consider investment, employment, exports and broader economic benefits rather than fiscal costs alone. It also stressed that infrastructure, utilities and regulatory constraints should be recognised when assessing SEZ performance.</p> <p>Khyber Pakhtunkhwa provided detailed and substantive policy recommendations. The province emphasized that the transition framework should recognise regional disparities, security challenges and higher logistics costs faced by frontier provinces. It recommended allowing security-related and logistics expenditures as eligible cost-based incentives, providing longer transition arrangements and grandfathering for developing SEZs, improving the wider investment climate before withdrawing incentives, selecting a frontier SEZ (such as Rashakai) for the pilot programme, and developing region-specific performance indicators that account for differing levels of SEZ maturity.</p> <p>Balochistan requested that the transition framework reflect the province's unique developmental context, strengthen enterprise-level data collection, improve institutional coordination and consider the slower pace of industrial development in emerging SEZs. These comments were incorporated into subsequent revisions of the Concept Note.</p>
<p>2nd Review Meeting of the SEZ Task Force (18 June 2026)</p>	<p>The second meeting reviewed the provincial feedback received on the draft Concept Note.</p> <p>Khyber Pakhtunkhwa provided detailed comments during the meeting, Punjab confirmed that its written comments would be submitted within</p>

	<p>one day, while Sindh and Balochistan were granted an additional day to provide their feedback.</p> <p>The Task Force agreed to incorporate all provincial inputs, hold further consultations with the Chairman SIFC and the Finance Division to address any remaining issues, and finalise the Concept Note for submission to the IMF in accordance with the End-June 2026 Structural Benchmark.</p>
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Summary of key findings, concerns, and action points from: Sindh (May 11), Punjab (May 12), KP (May 13), Balochistan (May 14), 2026.

Province	Key Concerns	Action Points
Sindh May 11, 2026	<ul style="list-style-type: none"> • Safeguard existing contractual commitments and investor confidence during transition. • KPI framework should reflect different SEZ development stages and wider economic outcomes beyond fiscal costs. • Infrastructure gaps, utility constraints and regulatory delays should be recognized in evaluating SEZ performance. 	<ul style="list-style-type: none"> • Continue consultations with Provincial SEZ Authorities, developers and enterprises throughout the transition. • Develop transparent SEZ classification and performance assessment criteria with provincial stakeholders. • Complete review of existing Development Agreements, Concession Agreements and Enterprise approvals before further legislative amendments.
Punjab May 12, 2026	<ul style="list-style-type: none"> • Concerns regarding investor confidence and continuity of existing contractual commitments. • High financing costs, macroeconomic conditions and infrastructure constraints may affect the pace of SEZ development. • Concerns about feasibility of the proposed transition timeline and adequacy of supporting impact assessments. 	<ul style="list-style-type: none"> • BOI to continue engagement with provincial stakeholders to clarify scope, timeline and implementation of the proposed cost-based incentive framework. • Complete questionnaire-based data collection and analytical and impact assessment work to support the transition. • Continue sharing relevant studies and consultation findings with provincial stakeholders.

<p>KP May 13, 2026</p>	<ul style="list-style-type: none"> • Need for regionally differentiated transition arrangements reflecting KP's security, geographic and logistics constraints. • Early withdrawal of incentives without broader investment climate improvements may affect investment in developing SEZs and frontier regions. • KPI framework and pilot programme should account for regional differences and varying levels of SEZ maturity. 	<ul style="list-style-type: none"> • Consider region-specific transition arrangements and targeted cost-based support for less-developed and frontier regions, including security and logistics costs where justified. • Assess security and logistics-related expenditures within the cost-based incentive framework where justified.
<p>Balochistan May 14, 2026</p>	<ul style="list-style-type: none"> • Transition framework should reflect the province's unique developmental context and early-stage SEZ ecosystem. • Transition arrangements should account for the pace of industrial development in emerging SEZs. 	<ul style="list-style-type: none"> • Enhance coordination between BOI, SEZA Balochistan and other stakeholders throughout the reform process. • Reflect province-specific development considerations in the design of the transition framework.

Annex C: Workplan

WP ID	Task & Activity	Responsibility	Jun-26	Jul-26	Aug-26	Sep-26	Oct-26	Nov-26
Milestone 1 – Submission of Concept Note to IMF								
1.1	Reform Concept Note & Field Visits	SEZ STTAs						
1.1.1	Stakeholder mapping and consultation plan	Senior Policy Advisor , Associates						
1.1.2	SEZ Taskforce Engagements	Senior Policy Advisor, Associates						
1.1.3	Data Compilation	Associates & Data Team						
1.1.4	Submission of Draft Concept Note	Senior Policy Advisor, Associates						
1.1.5	Field Visits – KP, Punjab	Associates						
1.2	Legal & Contractual Review	Legal Expert						
1.2.1	Collection and Review of Relevant SEZ Legislation, Rules, Regulations, and Notifications	Legal Expert, Legal Associate, Associates						
1.2.2	Collection and Assessment of Development Agreements, Concession Agreements, and Enterprise-Level Contracts	Legal Expert, Legal Associate, Associates						
1.2.3	Mapping of Contractual Obligations, Incentive Commitments, and Investor Rights	Legal Expert, Legal Associate						
1.2.4	Assessment of Legal Risks, Reform Constraints, and Transition Considerations	Legal Expert, Legal Associate						
1.2.5	Stakeholder Consultations on Legal and Contractual Implications of Incentive Reforms	Legal Expert, Legal Associate						
1.2.6	Development of Contractual Obligations Mapping Matrix	Legal Expert, Legal Associate						
1.2.7	Preparation and Finalisation of the Legal & Contractual Review Report	Legal Expert						
Milestone 3 – Fiscal and Financial Data Gathered and Cost Assessment Completed								
1.3	Fiscal Cost Analysis	Fiscal Expert						

WP ID	Task & Activity	Responsibility	Jun-26	Jul-26	Aug-26	Sep-26	Oct-26	Nov-26
1.3.1	Development of Fiscal Assessment Framework	Fiscal Expert, Economist, Data Modelling Specialist						
1.3.2	Fiscal and Financial Data Collection and Validation	Fiscal Expert, Economist, Data Modelling Specialist, Associates						
1.3.3	Assessment of Fiscal Implications of Alternative Incentive Options	Fiscal Expert, Economist, Data Modelling Specialist						
1.3.4	Fiscal Cost Analysis Report	Fiscal Expert						
1.4	Calibration Analysis	International Lead						
1.4.1	Institutional and Governance Review	Institutional Expert						
1.4.2	Stakeholder Mapping and Governance Diagnostics	Institutional Expert, Senior Institutional Associate						
1.4.3	Development of Calibration Methodology	SEZ International Lead						
1.4.4	Enterprise and Developer Level Calibration Analysis	SEZ International Lead						
1.4.5	Evaluation of Alternative Cost-Based and Performance-Based Incentive Options; Development of Transition Scenarios and Reform Options	SEZ International Lead						
1.4.6	Calibration Analysis and Transition Options Report	SEZ International Lead						
1.5	Pilot SEZ Design	International Lead						
1.5.1	Development of Pilot Selection Criteria	SEZ International Lead						
1.5.2	Pilot SEZ Assessment and Selection	SEZ International Lead						
1.5.3	Legal, Institutional and Operational Readiness Assessment	Legal Expert, Institutional Expert, Fiscal Expert, SEZ International Lead						
1.5.4	Development of Pilot Governance and Implementation Framework	Institutional Expert, SEZ International Lead						
1.5.5	Stakeholder Consultations and Validation of Pilot Design	Institutional Expert, SEZ International Lead						
1.5.6	Finalisation of Pilot Design	SEZ International Lead						

Annex D: SEZ Incentive Regimes: Regional Comparator

Fiscal and non-fiscal incentives offered to zone enterprises | Source: AT Kearney SEZ & EPZ Feasibility Study (June 2025); SEZ Act 2012 (Pakistan); Income Tax Ordinance 2001; UNCTAD; PWC; Deloitte; EY; national investment authority publications

Incentive Category	China	UAE	India	Egypt	Pakistan
FISCAL INCENTIVES					
Corporate Income Tax	SEZ income exempt; tax rate applies to domestic income only; reduced rates for high-tech sectors	0% CIT on zone operations; free zone companies fully exempt	15-year holiday on export income: 100% (5 yrs), 50% (5 yrs), 50% of reinvested profits (5 yrs)	No CIT holiday; standard 22.5% rate applies — one of only two peers without CIT exemption	10-year income tax holiday;
Tax Deductions / Credits	200–300% super-deductions for logistics, power and water (10 yrs); 25% deduction on facility construction	Reduced/exempt CIT for R&D or tech development until 2028; enhanced depreciation allowances	No additional deductions currently provided (R&D, training, utilities)	No specific deduction regime for zone enterprises	No additional deductions; no R&D, training or utilities credits available to SEZ enterprises
Personal Income Tax	17% flat PIT rate for SEZ employees	PIT exempt where exports exceed 85% of production	No PIT concession for SEZ employees	No PIT exemption in free zones	No PIT concession for SEZ employees; standard personal tax rates apply
Customs Duties	Duty-free import of raw materials, components, machinery and equipment; no export customs duties	All goods entering free zones exempt; exports likewise duty-free	Perpetual duty-free import of capital machinery, raw materials and inputs for zone production	Imports into free zones exempt; exports duty-free (Suez and Alexandria)	One-time exemption on CAPEX imports (machinery, plant, equipment); no ongoing exemption on raw materials or reinvestment cycles

Incentive Category	China	UAE	India	Egypt	Pakistan
VAT / Sales Tax	Imports VAT-exempt until entering domestic market; some zones exempt or refund VAT entirely	No VAT, stamp duty or special consumption tax on intra-zone transactions	Supplies to SEZs zero-rated and exempt from GST/Sales Tax	No VAT on goods or services within free zones (treated as outside the domestic market)	Supplies to SEZs zero-rated and exempt from Sales Tax on inputs;
Land & Property Tax	Discounted land pricing; long-term preferential leases; no specific land tax exemption	Exempt from stamp duties and real estate registration fees; 100% foreign land ownership	State governments provide land at concessional rates; no national-level land tax exemption	Competitive land lease terms in strategic free zones; stamp duty exemptions apply	SEZ developers facilitated in acquiring land; leases up to 30 years at competitive rates; provincial and municipal tax exemptions for zone enterprises
NON-FISCAL & REGULATORY INCENTIVES					
Visa & Labour	No special visa scheme; streamlined work permits for foreign experts in high-tech zones	Golden Visa for investors; specialised talent visa; 100% foreign workforce permitted	Smart Visa for investors and advanced-industry employees; training cost reimbursements	No dedicated visa scheme; GAFI handles work permits via one-stop-shop	No dedicated SEZ visa or talent attraction scheme; standard work permit processes apply
Funding & Grants	Cash grants >5% of FDI for large projects (factory build-out, hiring, R&D); 50–100% infra co-financing	Government co-finances up to 50% of required infrastructure; 100% on special approval	Government innovation funds, R&D incentives and matching grants for technology development	Limited direct grant mechanisms; standard national investment finance schemes apply	No direct grant or subsidy programme; off-site infrastructure funded through PSDP for select SEZs only
Infrastructure & Utilities	Subsidised utilities (electricity, water, gas); government co-finances logistics infrastructure	Dedicated free zone infrastructure at cost; government ensures off-site connectivity	Off-site roads, power and water to zone boundaries funded by government; vocational training centres in zone areas	Full utility and transport infrastructure in strategic free zones; dedicated port access	Off-site infrastructure via PSDP for select SEZs; on-site utility provision inconsistent; electricity tariff among highest in region (~16 cents/kWh vs ~7–9 cents in peer economies)

Incentive Category	China	UAE	India	Egypt	Pakistan
One-Stop-Shop / Facilitation	24/7 in-zone customs; licensing waived for SEZ firms; on-site government liaison	Fully digitised one-stop service: registration, licensing, work permits and customs clearance	Single-window for central and state approvals; simplified setup and operational clearances per zone	GAFI one-stop investor services; exclusive customs directorate with simplified trade procedures	Single-window facilitation for licensing and customs available but not yet fully digitised;
Foreign Ownership	100% foreign ownership in most SEZ sectors; restrictions in sensitive industries	100% foreign ownership in free zones; full repatriation of capital and profits	100% FDI permitted; no restriction except security-sensitive sectors	100% foreign ownership in free zones; full profit and capital repatriation	100% foreign ownership permitted; full repatriation of capital and profits; no restriction on industry type except narcotics, arms and high-pollution activities

Notes: Pakistan column (highlighted in gold) reflects the current SEZ regime under the SEZ Act 2012 and 2026 Amendment; incentive phase-out is subject to ongoing reform under the IMF EFF structural benchmark. Egypt reflects the free zone regime under Investment Law No. 72/2017. India reflects SEZ Act 2005 incentives; some benefits modified post-2019.